NATIONAL COUNCIL OF INSURANCE LEGISLATORS
FINANCIAL SERVICES & MULTI-LINES ISSUES COMMITTEE
JERSEY CITY, NEW JERSEY
JULY 14, 2022
DRAFT MINUTES

The National Council of Insurance Legislators (NCOIL) Financial Services & Multi-Lines Issues Committee met at the Hyatt Regency in Jersey City, New Jersey on Thursday, July 14, 2022 at 3:45 p.m.

Representative Edmond Jordan of Louisiana, Chair of the Committee, presided.

Other members of the Committee present were:

Rep. Matt Lehman (IN)
Rep. Derek Lewis (KY)
Rep. Bart Rowland (KY)
Sen. Jerry Klein (ND)
Sen. Bob Hackett (OH)
Rep. Brian Lampton (OH)
Rep. Lacey Hull (TX)
Rep. Jim Dunnigan (UT)
Del. Steve Westfall (WV)

Other legislators present were:

Asm. Mike Gipson (CA)
Rep. Stephen Meskers (CT)
Rep. Tammy Nuccio (CT)
Rep. Kerry Wood (CT)
Rep. Roy Takumi (HI)
Rep. Rod Furniss (ID)
Sen. Beverly Gossage (KS)
Rep. Rachel Roberts (KY)
Rep. Michael Sarge Pollack (KY)
Asm. Roy Freiman (NJ)
Rep. Wendi Thomas (PA)
Rep. Dennis Paul (TX)
Sen. Mary Felzkowski (WI)

Also in attendance were:

Commissioner Tom Considine, NCOIL CEO
Will Melofchik, NCOIL General Counsel

QUORUM

Upon a Motion made by Del. Steve Westfall (WV), and seconded by Rep. Brian Lampton (OH) the Committee voted without objection by way of a voice vote to waive the quorum requirement.

MINUTES

Upon a Motion made by Sen. Bob Hackett (OH), and seconded by Rep. Bart Rowland (KY), the Committee voted without objection by way of a voice vote to adopt the minutes of the Committee's March 5, 2022 meeting in Las Vegas, NV.

CONTINUED DISCUSSION ON NCOIL INSURANCE REGULATORY SANDBOX MODEL ACT

Rep. Jordan began with turning things over to Rep. Rowland for introductory remarks on the continued discussion of the NCOIL Insurance Regulatory Sandbox Model Act (Model). Rep. Rowland stated that I appreciate the Committee's continued consideration of this Model. At the

Committee's last meeting in March it was agreed upon that the Committee would continue the process of developing the Model despite some concerns that had been raised as to whether a Model is necessary because there have not been many applications in the states of these types of sandbox laws. So, I appreciate the Committee for agreeing to do that and thank you to Rep. Tom Oliverson, M.D. (TX), NCOIL Treasurer, for signing on as a co-sponsor of the Model joining Rep. Wendi Thomas (PA). The current version of the Model appears in your binders on page 90 and it essentially mirrors the Kentucky sandbox law which I sponsored and we passed in Kentucky a few years ago. However, as I've stated from the beginning of this process, I'm certainly open to hearing suggestions as to what should be added or removed from the Model. But the bottom line is that I do believe it would be very beneficial for NCOIL to provide guidance to states that are looking at this issue in the form of a model law.

To that end, what I've decided to do is to introduce an alternative version of the Model which still achieves the main goal of reducing hurdles for companies that want to introduce new concepts and products at the same speed as insurance technology develops, but does so in a much more streamlined and simplified manner. Indeed, the current version of the Model is nearly 15 pages and the alternative version is only half of that. This version, the alternative one, appears in your binders on page 85. Accordingly, what I'd like to do today is hear from the speakers we have scheduled and from my colleagues as to what their thoughts are on the sandboxes in general and specifically on the alternative version of the model that is in your binders. Then after this meeting we can determine which version to choose to move forward with and hopefully we can have it adopted at our Fall meeting in November. One more item I'd like to note is the issue of reciprocity. I've said before that I do think it is beneficial to have reciprocity language in the NCOIL Model, meaning that it would permit companies to obtain a waiver in one state to operate in others without going through the application process from scratch. However, the more that I and others have thought about the concept of reciprocity the more questions have come up of how exactly you would implement that. So, you'll see in your binders on page 84 that there are two options for the reciprocity section and I would like to hear feedback on those options as well and try to figure out how to move forward with reciprocity in the sandbox Model.

Allen Kamrava, Founder & CEO of Eusoh, thanked the Committee for the opportunity to speak and stated that I'm a dual board certified general and colorectal surgeon. I also have a Masters in Business Administration. I'm teaching at a facility in the Department Colon Rectal Surgery and Division of General Surgery at Cedars-Sinai in California and I've been working on a startup and have a startup that's been live that's been trying to bring an alternative concept of how we can achieve coverage using the advents of technology and kind of a preface of why I'm speaking with you today is a sandbox Model would be very beneficial, and what's happened with our own startup and company would help highlight that. So, being a physician I've worked through Kaiser, I matriculated at University of Pennsylvania. I work at a large academic center now. I've seen all sides of the health disparities in terms of cost and access to healthcare and that led me down a rabbit hole of why can't we do this better and led to the startup that I'm here to speak of today. But a simple fact, and I've cited a source at the bottom, 93% of Americans do not trust insurance. Consider that as we go through this that a product that is there to protect people, only 7% of people trust. If that doesn't tell us that we need not just continue business as usual and look at ways that we can improve this, I don't know what else could.

When we look at innovation in the insurance world, it really falls into two main categories. One is data-AI processing. How do we take the data that's coming in mass and function and utilize that better in an actuarial way to produce better models going forward. Or, how do we build cool apps, so that users will have better interaction with insurance? But at no level are they actually looking at how do we change that model from the ground up and potentially build something that works better for the end user. And that's what we did. I'm only going to go through it in just a single slide here but I could spend well over a few hours discussing the intricacies of what we did with Eusoh for the company that we built. But what we did at its core was using the advents and digital payments technology showed that you can move the surplus that has been coming to define an insurance fund and distribute that across the membership. Now, it goes much deeper than that but if you think about that on a policy standpoint if you have small lines that the surplus can then be freed up because it can be distributed across the membership and utilized for other product lines that have otherwise not had surplus available you start to open up on a policy side, on a regulatory side, different lines of coverage that otherwise were not touchable or fathomable before. We incorporated in 2017. In these five years we've raised $4.5 in funding. Over 20% of that funding was spent on legal due diligence. We spent a full year looking at the regulatory backgrounds and brought on board folks to do actual studying and modeling. They reported a concept report that they published and we looked at all the regulatory rules and precedents both on a state and a federal level before we even started our first line of code.

We knew that what we wanted to do had to be done right and in no way did we fake it till you would make it as is typical of an industry jargon of most startups these days. This is at the end of the day a financial coverage solution and if you're going to do it, it has to be done right. But at the end of the day we were proposing a model that is a zero surplus model and without a surplus you cannot apply for a certificate of authority (COA) - it's impossible. You just can't get one. That's the fundamental principle to get a COA. So, could a startup that is saying we can potentially utilize new technology to introduce a new model that utilizes surplus on a distributed model ever exist not only in the U.S. but I guess 50 different states and all the regulatory bodies with that small amount of funding. You can't. Meanwhile, we went live with a proof of concept as a test of the model in the dog and cat space. So, pets in 2018. This is from our graph reports from one of the top three global reinsurance groups. They audited our data after three years and showed that through our model we had saved users 47% against any like comparable pet conventional insurance plan in the market today. Furthermore, they reported a 37% improvement in average claim size, 24% improvement in claim frequency, and they wrote "Eusoh has successfully provided $15 million in limits to their members with no capital utilization and saw over $2 million in submitted expenses."

Despite this success, we're closing because we can't afford the regulatory burden. We have different states putting inquiries in and the ability of a small startup to pull that burden is not doable. And we have a A+ Better Business Bureau rating. Forbes this year listed us as one of the top one hundred most customer centric companies in America. Insider listed it as the best coverage in America for pets. And we're closing the pet book despite those successes because there was no path for it for us and we were drowning in legal debt. Here are some testimonials from real users and I urge you to take a look later if you can. This is a member who lost their pet but and said, "in Molly's honor we'd like to keep our membership active for several months to keep those in our community whole." These are people who no longer had a pet to serve and were continuing to pay forward essentially paying a monthly equivalent to a premium even though they didn't have something to cover. A user named Shervin gave their dog up for adoption and writes that they're going to continue to pay forward into the community. Stories like this are abound within our model and the whole point from it from the beginning for us was if we can recreate this from the beginning, from the outset, we can potentially build something where our users have buy-in and when your users have buy-in, then you start to decrease frequency and the severity which is exactly what the global reinsurers showed when they audited our data that we successfully achieved that.

These are some of our awards and recognitions for the last few years as we were listed as the best coverage in America for pets, but we're closing. The conclusion is that voters are out of a viable solution. Small startups cannot in any shape or form withstand the cost of what it would take on a 50 state sandbox movement or even a 50 state regulatory haul and what it would take to go forward. A sandbox is vitally important if we want to innovate in the world of insurance and really look at what technology can do to start bringing things forward. Incumbent companies are large, slow, and everything works by committee. Innovation is going to come from small startups and we have to open up our world to allow a path forward for them to do that. In working with Rep. Rowland, we had recommended some ideas for the sandbox to help make it possible for small startups to get involved and they're all listed here. Australia has a model like this of a national essentially ombudsman, a person whose job is dedicated to help new innovative ideas in the world of insurance come through the burdens and say this is what needs to be done and to ensure consumer protection is there and make sure that the path is there for them.

The other is an alternative means for solvency requirements. We live in a complex world. We had a presentation today on private equity, not that I'm saying we use private equity, but the point being that there are so many ways for us to solve for solvency other than what is already known from the past and we should explore all those options and make those, as long as there's a solvency requirement met even if it's an alternative, but it meets that requirement and gives the consumer protection. It should be considered and honored if it does that. As Rep. Rowland had said, reciprocity across states is paramount. It's one thing to do it with one state but to then to do it across 49 other states - the cost by themselves are daunting and basically impossible for a small company. And then if key performance indicators and consumer protections are met, a path to a legislative approval to allow these new models to exist should be present.

JP Wieske, representing the American InsurTech Council (AITC) thanked the Committee for the opportunity to speak and stated that the AITC is a group that formed earlier this year and we are different in part because the only group that we represent is insurtechs. We are not looking at representing folks that are legacy carriers unless they are in the insurtech space. I would note I am also a former regulator and in my role as the Deputy Commissioner of Wisconsin, we had a sandbox law that dated back to the 1970's and has been widely successful in a number of products. So as much as we've had issues with a discussion here about products not coming forward we in fact have had products that started in the sandbox in Wisconsin, moved through that sandbox and are outside. The first point I would want to make is I think what's important to understand is that the availability of the sandbox in and of itself is important. Those discussions cannot be had with insurers and with new companies and with new ideas if you do not have a sandbox available. We found in a number of cases that when we had discussions directly with the insurers that in fact the products that they thought needed the sandbox did not in fact need the sandbox and so they were able to file normal products and go through the normal process but they never would have had that conversation with us if we didn't have the sandbox in place.

The other issue is that there are a number of rules and issues inside insurance that cause problems for new carriers in creating new products that take some time. For example, seasoning requirements are often waived. There's a five-year seasoning requirement for a lot of insurers those are often waived but that's a broad issue for a new carrier that is hard to go through. There are filing issues that they have to deal with inside the department that can be extensive and those filing issues also mean that they can't make adjustments to their products on the fly. When you have a new product, you may need to make an adjustment every single month. Under insurance laws that would be considered discriminatory, so you're not allowed to make those changes and so we in some cases use a sandbox to allow adjustments in filing on a regular basis. There are benefit issues that may or may not be legal in the current aspect but may need to be legal and may be available and I'll talk about one of those products in a minute. Capital requirements was also cited, and then notice issues. Wisconsin has an existing insurance law that requires that every single notice be offered on paper in a way that was in the exact same language which did not allow folks who were using a phone to use things like hyperlinks and other pro-consumer things to make it easier from them to be able to understand the policy. Those were not actually allowed under Wisconsin law and we had to make some adjustments there.

In closing I would cite a couple of products that we looked at that needed a sandbox. So, there's a National Association of Insurance Commissioner (NAIC) model around limited duration, long term care. This is long term care that covers a shorter than one year duration. In a number of states before that model that product was considered illegal. It was turned down including in Wisconsin before we got in office, those products were not available in the state despite the value that they provided to consumers. Eventually an NAIC model was adopted and its now a widely available product but again in a number of states without that it was illegal. We also saw some products around coverage for rentals that came through our process that is now available on the market. An insurer is also offering a package for certain consumers that have trouble affording house issues that come up, things like a breakdown in your air conditioning or your furnace which can be devastating so they've got a product that is targeted to those folks to make sure that they have some financial protections in place. So, those products would not exist without the insurance sandbox we went through. There is a lot of value, and again the key value, even if you don't see anything that goes through the sandbox, is the ability to be able to have that conversation with insurers.

Wes Bissett, Senior Counsel at the Independent Insurance Agents and Brokers of America (IIABA) thanked the Committee for the opportunity to speak and stated that the IIABA thanks Rep. Rowland, Rep. Thomas, Rep. Oliverson, and this Committee for the thoughtful work on this issue over the last few months. The overarching goal here with this proposal is to promote innovation in the insurance sector and there's really nobody that challenges or questions that. I think where you find yourselves at this point is not whether to act on a proposal like this but exactly how the details of how to go about doing that and the reality is that there are some important legal and public policy questions that come with the adoption of a sandbox proposal of this nature. The core feature of this is that it allows insurance regulators to exempt from statutory requirements certain marketplace actors. So, the statutory requirements that you've set as legislators, regulators for the first time would have the ability to say that they are waived for purposes of certain marketplace players and not others.

So, that's a big power and with that power there needs to be some reasonable protections and some of those were already in the initial proposal that was filed and I'm pleased to say that in the alternative proposal, the issues that we've testified on in the past, we think that all those protections are now found. Things like transparency, identifying certain types of requirements that are essentially un-waivable because they are so impactful to consumers. So, our view of the alternative proposal is that Rep. Rowland and the Committee have done a good job of threading the needle. It accomplishes the core objective of promoting innovation and to satisfy those goals that the sponsors were trying to accomplish but at the same time also implementing some modest safeguards. So, I don't know what your intentions are as a Committee whether you're going to adopt this today or at the next meeting but we'd urge you at the point that you do to take the alternative that's been submitted and we appreciate your willingness to consider some of those more detailed points that we've raised in the past. I think the product that will ultimately be adopted we hope is going to be benefited by the thoughtful work that you've undertaken and we greatly appreciate that.

Rep. Rowland stated that he is curious if any of the panelists have any thoughts on the two options for reciprocity that are in the binders today. Mr. Wieske stated that for me shorter is always better and the first alternative seems to hit where it should go from my sense and we support either and we support the Model and the new version as it stands but I think it makes a lot of sense to allow the state to sort of define itself whether or not it meets those standards. Rep. Rowland stated that I think we're in a good spot and I appreciate everyone's continued work on this issue and I feel like we're in a good spot to hopefully pass this Model in November.

Rep. Thomas stated to Dr. Kamrava that I have a question about your closing your business down and you said you can't afford to go through the regulatory process. Is that primarily the regulatory process of all the states or is it you can't even get it through one state? So, what I'm trying to evaluate is the value of a compact that is multi-state versus a single state. Dr. Kamrava stated that it depends on the state. So, in the good state of Kentucky we actually found a working solution that we were able to come to agreement on and had been working on and we had other states and each regulatory department of each state takes their own process and their own way of doing it. Dealing with Kentucky versus Washington was a very different ball and chain. We have six inquiries coming in from different states and each of those inquiries is an entire different process. When I started it, I basically met with a group of different attorneys and said, "Look, this is what I'm seeing happening in healthcare, I want to fix these things." And every time they said, you can't as the regulations won't let insurance do this. So, I finally went to Orrick which is one of the most expensive law firms for startups and I said, "Listen, I'm a physician, I by no means want to break the law or go to jail but there has to be a way, and I know that there's models." So, for instance in California, my malpractice insurance is under California Mutual Protection Trust. It's not considered insurance but it's the largest malpractice coverage in the state. How are they able to be considered not insurance but be allowed to be used? And there's multiple examples of this. I want to know all ways others have done this across all the states and then I will build based on that so that we're following the code.

Regardless of how good we have done it I still have to face the inquiries. So, for instance, in one of the states after a year of calls and legal expenses they said we have tried to catch you on multiple ways and we have failed. You have actually done this right but we think you're insurance and you'll have to beat us in court. And I can't afford that. And so, it stopped. And as each state comes that becomes are they willing to work with us or not? And it's very hard because it's really up to each dep't of insurance but the reality is we don't have a license. I couldn't get one if I wanted it. I don't have paper, and it's because the way we are structured it's impossible to do so. Not because the model doesn't have worth to be considered but because these are the processes that we knew would happen. That one day, we'd have to be here talking about how do we start making these parts there? So, we said let's prove the concept, show that it works, and then hope to get it where we need to get it. So, we're not closing the business but closing that book and hoping to continue to be here to work with you.

Mr. Wieske stated that I would just note that there is a wide difference between states and product to product. We had one case in Wisconsin with an existing insurer that is under some financial strain and there's a state that does not have significant risk but is holding millions of dollars of deposits in lieu that they don't need that would be helpful to the operation of this company because they feel that it's their right to hold this in case the policyholders need it. So, states vary significantly on this and product to product and part of the key to having something like this is forcing a dep't of insurance to have a conversation with somebody upfront and making staff available to be able to have that conversation to move forward.

Rep. Thomas stated that I think what I'm trying to get at is if an individual state adopts this, is that enough to spur innovation or is it necessary to have multiple states? Because if you can only do one state, is it too difficult in the rest of the states where it does not work? Obviously you did it in Wisconsin. We don't have it in Pennsylvania, so there's some value. Mr. Wieske stated that the relationship on a state to state basis is such that insurance is regulated on a state by state basis. There are some commonalities and financial rights as a piece of it that is sort of part of the state's system that is sort of helpful but still there's deposits, minimum capital requirements, and other things that are in play and you can have some variations of that if it's outside the accreditation standards of the NAIC. So, there is some flexibility there on a state by state basis. So, even having one state is helpful and it helps demonstrate, and there are other alternative payment models that certainly some departments resist, forcing the department to have a conversation to definitively say yes or no up front which can save a lot of time and effort for folks who want to take a look at this because the statues may not be clear and they may have rules in play that you don't know about that create problems behind the scenes or create a situation like the one that was just highlighted.

Rep. Thomas stated that as co-sponsor of the Model I believe in this idea but I think the value of doing it here at NCOIL is that we will have multiple states adopt it from here and then everybody wins. I do think if we do it individually we'll have limited success but if we can do it more broadly the success will be greater for everyone. Rep. Jordan stated that he agrees.

Rep. Jim Dunnigan (UT), Vice Chair of the Committee, asked Mr. Bissett for his thoughts on the alternativ version of the Model introduced today. Mr. Bissett stated that our view is that the latest version is worthy of adoption. It addresses many of the issues that we've testified about in the past and with regard to the question about which of the two options on reciprocity make more sense, I fully concur with Mr. Wieske. We're sort of agnostic about the two reciprocity options but 'm kind of one of those people that says if the shorter version works, maybe that's the one to go with. It seems to also give states a little more flexibility perhaps when it comes to reciprocity. So, we'd probably maybe lean a little bit towards option one over option two but option two is not inherently troubling in any way.

Rep. Jordan asked Mr. Wieske regarding startups, what are the barriers being faced as far as things like capital requirements and other things. What other barriers are these startups facing? Mr. Wieske stated that there's a couple of issues. Two of our sponsoring members of the organization are in artificial intelligence (AI) and they're having some issues with getting carriers to use their services because they're afraid of what the Departments of Insurance will look at and they're no sort of standards in play. So, part of what they're looking at in that case is they are a non-insurance product. A lot of the startups are non-insurance product but are insurance adjacent and so they're looking to understand how this will work with the insurance entity and to get a little bit more of a mother may I. To be brutally honest a lot of insurers are extremely adverse risk adverse despite the fact that they're in the risk business, and tend to not take a lot of chances. And from a capital standpoint, to get an insurance license is expensive and there's a minimum capital that attaches. It varies state to state. I believe it's around $3 million in some states that you have to have available from a capital requirement. They can make some sort of allowances on that as they go through. There are some reinsurance and other agreements you can do to sort of get there. There are fronting arrangements. But, functionally, if you're required to have an insurance license, you've got to get a little creative or find a fronting arrangement to sort of get there and then you have to go to you point through a bunch of states to get your insurance licensed. The other bit is if you're doing sort of a risk sharing sort of approach with your members, that falls definitionally potentially inside insurance but may not be legal under the sense of the rules of the insurance license as it stands. So, you get caught in a catch twenty-two that you're doing something that is more in favor of the consumer but that you don't have the ability if you're a licensed entity you can't do that because it's against the law structurally. So, there are a lot of issues that sort of potentially attach, but around capital, it's significant.

Rep. Stephen Meskers (CT) stated that I'm trying to understand the business model and the scope of a nationwide sandbox or multi-state sandbox because I'm trying to figure out what level of capital you're going to not keep as reserves but capital you're going to deploy and what number of consumers you're going to look to cover. What level of risk are you going to have? And then, who is going to be the regulatory authority within that sandbox at some point to say, "Okay, you've used venture capital, private equity, you've done your sandbox, and you've launched your product." And when do you graduate to work in a business model with the level of reserves? Because you can build a book of business in a sandbox where the exposure is so high but there isn't a backup and all of a sudden there all of the constituents, all of the people who purchased the policy, can't get their claims resolved. So, I'd like to know what the progression is for when do you graduate from the sandbox into kindergarten or first grade? How much capital is needed and how big of a firm are you looking to create across this regulatory divide?

Mr. Wieske stated that I think from our standpoint there's a couple of pieces. I think there's a legitimate concern that when you're looking at the risk and you're looking at the nature of some these products, that the level of risk and the level of reserves you're required to have is not commensurate with the risk level that the insurer's taking as a piece of it. That if you got to be that big, you'd probably be able to get those numbers but functionally, if you're looking at certain types of risk and certain types of products, what we're trying to get to is to try to figure out if you got electronics insurance, and you're only covering phones when they go to an airport in case they get stolen or broken in the airport. Your risk level there is a little bit different than say a standard electronics policy that's covering everything soup to nuts or may be attached to your homeowners policy. So, you're trying to figure out what is the risk level. There are adjustments there that you need to be able to make. Generally, from a financial perspective there is one main financial regulator in front of any insurer and that's where most of the capital is required to reside and then you farm out. So, that would still functionally be the same but there would have to be some agreement that allows you to grow the business because what you're looking at in a lot of these is more of a niche business and you're not looking at having necessarily millions of customers in the state of Wisconsin and not trying to grow there but you might be looking at hundreds of customers in Wisconsin and maybe thousands nationwide because your product's a little bit different.

So, I think what the goal would be is to figure out how you could sort of right size this and that requires a lot of regulatory hands on work as a piece of it. So, when we looked at it we had our chief of legal, we had our filing people involved in the products as well as leadership each time we touched these to have this discussion about how you sort of go through and do this. And then behind the scenes you have public and private agreements to sort of make sure that the consumers are protected because if you're in a sandbox, you're looking at waiving some insurance laws for one reason or another and so you want to be able to have some protections that are available to the consumer that you agree on. Not all of those are necessarily public. In some cases, we had insurers that were experimenting with new policies that the benefits would not be provided potentially for years but they wanted to see what the market was and so there was an agreement that they would refund the entire amount of the premium back to the consumer if they didn't have any claims. And obviously if the consumer knew that, that's an issue. But that required a behind the scenes agreement. So I think you need a lot of regulatory touches and I think the Model sort of reflects that.

Rep. Meskers stated that the concern I have is, you'll build out a model and the question is in that regulatory sandbox, is anyone in oversight or does it work out to be basically a private contractual relationship between the sandbox and all the individual consumers with no oversight? So, it might be a different regulatory framework but to me it either graduates into an insurance product or a consumer product and it has to have some oversight at some point. Mr. Wieske stated that we had a philosophy when we looked at it that if you could not get out of the sandbox eventually there was no point in us having a discussion. We had a couple of companies that wanted to sell specific products without licensed agents which would obviously concern a lot of people and we turned those down because the law required the use of agents for good reason. So, you have to take a look at that as to whether or not they can actually get out of the sandbox, what you're waiving and why. And sometimes there's some statutory requirements that you just can't waive even though you could waive it theoretically, functionally they can't spend the entire life cycle of the product inside the sandbox. They need to find a way to get out.

PRESENTATION ON NORTH CAROLINA DEPARTMENT OF INSURANCE EFFORTS FIGHTING INSURANCE FRAUD

The Hon. Mike Causey, North Carolina Insurance Commissioner, thanked the Committee for the opportunity to speak and stated that I'll talk to you a little bit about insurance fraud and what we're doing in North Carolina. It's an honor for me to serve as Insurance Commissioner and State Fire Marshal. I was elected in 2016 and took office January 1st of 2017 and the first group that I visited at the Department of Insurance was our criminal investigation division. Now, my career in law enforcement amounted to Military Police School with the United States Army serving overseas briefly as Military Police but I have worked closely with a lot of law enforcement officers and the thing that got me interested in insurance fraud was during the months and years of campaigning across the state I kept hearing consumers bring the issue up – "You need to do something about insurance fraud." And what I found out, North Carolina was the first state in the United States to put law enforcement in a department of insurance and that happened in 1945. So, when I ask our criminal investigators how are we doing on insurance fraud when it comes to investigations, prosecutions and convictions, they let me know that North Carolina was receiving between 20 and 30 fraud referrals every day – 5,000 to 6,000 each year.

When I asked them how we were doing on investigations they said well we're only able to fully investigate about 12% So, to me that was a problem – 88% of fraud referrals not being fully investigated. So, I knew we needed more people, more sworn law enforcement. The other problem was even when they had a case and they tried to take it to court, some of the counties, some of the district attorneys were so overwhelmed they just sort of put insurance fraud on the back burner and I said, "Well, what if we hired our own prosecuting attorneys that can work with the district attorneys to help move these cases through?" And they thought that would be a good idea so I worked with our legislature and when I took office, we only had 18 or 19 sworn law enforcement officers and today we have 49 sworn law enforcement officers and three civilian investigators and arson investigators. We also have an arson dog, a K-9 that a grant from State Farm made possible. But we hired those three prosecuting attorneys in 2017 and that's made all the difference in the world. We had cases that were just sitting on the dockets. One case had been there for two and half years and we talked with the district attorney, we reopened the case and actually took it to court and got a conviction.

And you can go to our website and get more information but I would just encourage any of the legislators or elected officials here or any of the insurance companies if you want more information about what we're doing in North Carolina, we'll be glad to talk with you about it. The one thing that I would encourage the insurance companies to do is be more proactive about referring suspected fraud. Our general statutes in North Carolina say you don't have to know it's fraud, it doesn't have to be known fraud. But if you think something's not quite right, you are required by our state statutes to refer that to the department of insurance. Some companies do a wonderful job of that. I'll go ahead and say Nationwide is head and shoulders above every other company. We get 125 to 130 fraud referrals every month from Nationwide. We had a partnership with SAS Institute in Cary, North Carolina. They developed a reporting system and a North Carolina criminal information database that we work with law enforcement with to get all the law enforcement agencies and it's worked very well. And I just encourage people to get tough on insurance fraud because we're all paying for it and according to the Coalition Against Insurance Fraud, that's around $308 billion dollars a year.

Rep. Jordan asked of those thousands of referrals that you get per year, how many are on the auto side versus homeowners, and versus commercial? Cmsr. Causey stated that I don't have those numbers in front of me but can get them for you but I'd say the majority probably is automobile. We have a lot of staged accidents. I know one company, this was a claims clerk in an office of an insurance company noticed they had a claim, it was about $900 and they were going to pay it and they thought, well I believe I paid this claim before or something similar and the young lady went and looked and pulled the file and they had paid this woman and her son over $10,000 over the course of about 14 months on the same two vehicles. They were repeatedly filing the same claim and she just happened to pick it up. So, they had already collected over $10,000. We made the arrest on that. We have a lot of roofing contractors where these roofing contractors go around door to door. If you don't have a problem with a roof, they'll make one. We have one case that's ongoing that turned out to be a first degree murder case out of Gaston County where the husband killed his wife using eye drops so we call it the eye drop murder case and the district attorney in Gaston County asked us to prosecute that one when it goes to trial. But we'll get the breakdown for you on the actual numbers.

Rep. Jordan asked how that last case mentioned falls under the office of the department of insurance? Cmsr. Causey stated that this young lady that died was 34 years old and eight months after her death her mother called our office and begged us to look into this. It turned out that the husband had purchased a $200,000-plus life insurance policy right before she died. The family had asked for an autopsy. The husband refused and had her cremated as quickly as he could. And there were some other things. The husband had a girlfriend that came out of the closet right after the wife died and so there was just a lot of other things that we were looking at and two weeks prior to that a woman in South Carolina had been charged with killing her husband with eye drops. So, there might be a connection but we ended up making the arrest and the man had on his computer a lot of research on how many eye drops does it take to kill a person.

Sen. Beverly Gossage (KS) stated that I guess I'm trying to understand why it is the department of insurance is involved. It seems to me like with insurance companies having a large department on fraud, waste and abuse that they would have their own attorneys and they would be going after this. Cmsr. Causey stated that's a good question and some companies do have an aggressive special investigations unit but our state statute requires insurance companies with any suspected fraud or anything that might be a question to report it to the department of insurance. I get a list every day that shows every company that's made a fraud referral. The health insurance companies generally were not doing a very good job with that. So, I called one, a very large health insurer in our state, in 2017 and said, "Look, you're not reporting insurance fraud, it's required." And they brought in their attorneys and their SIU investigators and said this is how we're handling it and they were handling it but they still weren't turning it in.

So, they started working with our criminal investigations division and talked about it for about two years but never did anything about it. We never saw any results. I got a little mad one day about a report we got from a consumer and I called the company's lobbyist, and I said, "I'm going to issue the largest fine ever issued against this company in the State of North Carolina. Our statute say we can fine up to $1,000 per day and the case went back several years." And so, this was going to be a significant fine and this representative said, "Hold up. Let us come talk to you." And they did and we met in our board room and they said if you'll give us 45 days we'll go back through our files for four years and pull everything that we ever had a question about and we'll have you 60 fraud referrals within the next 60 days. And so we agreed to do that and now, they're on board and one of our best referrers. And sometimes, it's just a matter of we look at it and it doesn't rise to the level of criminal so they get a letter. We had a case down in Fort Bragg, North Carolina with a soldier had let his car insurance lapse. He had an accident but didn't report it but decided to go buy a policy then report it and we worked with Fort Bragg and sent out letters. They created a poster, and once that message got out there we never got another fraud referral. Now that doesn't mean there wasn't any fraud there but we think it's very effective, and we've got a pretty good track record. I've got the numbers but it might take too long to look them up. But we have investigators and we're just scratching the surface and we have investigators out there every day that are making arrests, and it is making a difference because you have to have the deterrence, if you're going to stop the fraud.

Rep. Tammy Nuccio (CT) stated that I recently read between 25% and 27% of health insurance claims are waste or abuse. So, how is your office working with insurance companies to identify that? Is that something that would fall under your area? And how do we work to improve that so we can improve the cost of healthcare? Cmsr. Causey stated that I wouldn't doubt those numbers but we believe that regardless of what kind of claim it is, we believe that about one out of ten has some degree of fraud in it. And again, not everything rises to the level of criminal but we just ask if whether the consumer knows about it, or a medical provider, or the insurance company, whoever knows about it just tell us and report it. We can set the insurers up with the reporting database that they can just go in each day and punch a button and send it to us and we'll check it out.

UPDATE ON DEVELOPMENTS IN ELECTRONIC DELIVERY OF INSURANCE DOCUMENTS

Karen Melchert, Regional VP of State Relations at the American Council of Life Insurers (ACLI) thanked the Committee for the opportunity to speak and stated that I gave a brief update during the November meeting of this Committee in Scottsdale on where we were on electronic delivery and other improvements and innovations in insurance document delivery and the like following COVID and what we had been working on. But I'm here to introduce John Feeney, VP of External Affairs at Prudential Financial and co-chair of the ACLI Innovation Subcommittee and he's going to give a much more detailed presentation on those issues.

Mr. Feeney thanked the Committee for the opportunity to speak and stated that I'll provide a brief update on some of the activity the sub-committee has been doing around modernizing e-commerce statutes. So, before COVID kicked in both NCOIL and the NAIC had acknowledged that there was a need to modernize e-commerce statutes. Obviously, we have the insurance e-commerce model act that that was passed here at NCOIL and adopted here in March of 2020. It started right before the world locked down. And the NAIC created its innovation and technology subcommittee which has been doing a lot of work around innovation and modernization. And they were looking at different insurer practices and updating that. So, there have been a lot of discussion around sort of the need for industry to address that issue.

So, there's nothing like a pandemic to kind of focus on that issue and there was a lot of focus on the requirements of the regulations in the industry and we worked together with the NAIC to address that. There was a lot of work that had to be done because the world as they say sort of overnight went into lockdown and so what we didn't have was a playbook. As you see the picture on the right how the New York City subway looked one day, and then how it looked the next day. You can just kind of take that picture and imagine insurance companies, or all companies and regulators, how their offices looked the next day after we shut down. And so there really was a need to address how we were going to go forward in this. As you see on the left the number of the regulations and actions that the regulators took to help us through for consumers and for insurance companies. And there was a lot of initiation, cooperation, discussion between the NAIC and the ACLI and its members to address these issues because there really was no playbook at this point on how we were going to address the lockdown and then how we were going to be able to do required filings and get information to our consumers.

As this points out, 1999 is when the Uniform Electronic Transactions Act (UETA) was first adopted and as you go back and look the palm pilot was all the rage. Fax machines were cutting edge. And fast forward twenty years later to 2019 to see how things have drastically changed with the ability of computers. Since the iPhone was adopted in 2007 there has been widespread adoption to the iPhone even by seniors. So, UETA has been on the books for well over 20 years and industry technology has significantly advanced. Unfortunately, the regulations just haven't followed suit. As we sit here in 2022, consumers are very comfortable using technology. The lock down from COVID really enhanced that. I mean people who were uncomfortable using technology before, they were forced to learn it and they became very comfortable with using technology. A whole generation of consumers grew up in an electronic world. They're very comfortable using technology and they do experience some pain points when they cannot do the things they want to do using technology. And as I said, COVID really did accelerate the shift to online engagement and I think everybody in this room has probably heard this before but consumers are increasingly expecting an Amazon-like experience when they deal with companies.

They always talk about two clicks in two days. That's what people expect. And so, when they don't have that experience working with insurers, they get a little frustrated. And I'll use the one example with my own kids. I have three children in their 20s and everything they do is on their phone and they don't receive any mail. The mail they get comes into their phones. If they get any mail, it's junk mail. So, we're lagging behind where a number of consumers are in their expectations and really their desires to interact with the financial services industry. I just want to give a sort of update of all things that have taken place on this modernization march forward. As I previously mentioned, NCOIL has adopted their Model back in 2020. The E-sign Modernization Act has been introduced twice in Congress. There is a lot of interest around it but it hasn't moved but there at least has been Federal engagement on the need to modernize their laws. The financial services industry, in addition to what the ACLI's been doing, has had engagement at the Securities and Exchange Commission (SEC) level on the need to modernize how the SEC delivers documents. Again, it's namely a paper delivery but we're really pushing for electronic delivery of those documents.

And as I mentioned previously, we have worked closely with the NAIC and back in 2021 the NAIC did develop an e-commerce working group and recently they submitted a survey asking input from insurers as well as the states on sort of what can be done to improve e-commerce and what prohibits or impedes electronic commerce. And a number of the ACLI members did reply to that survey and really what we've heard from them was very loud and clear - the need to change the default. So, right now if you are getting documents unless you affirmatively consent and show with reasonable demonstration how to get those documents, you have to get them through paper and not through electronic means. And even if we do update the statutes eventually, what it will not be addressing is a lot of the legacy policyholders who still get things paper and will not take the steps really necessary to change it from paper to e-delivery. So, we're still talking about thinking about how to tackle this. We have some ideas. I know what we plan to do is continue legislative and regulatory outreach. We know we have to engage with the consumer groups. There are a number of groups that are opposed to the changes to going from paper to e-delivery. Groups like the timber industry, as you can probably appreciate. The U.S. Postal Service has some issues with that as well. And so, what I really want to do is sit down and engage with them because the desire is out there. The consumers are really wanting to have these documents delivered electronically. We'll never ever take paper away. There's always going to be a portion of consumers who want it or maybe don't have access to the internet, and we understand that. Or maybe they just prefer paper to hold something and look at something. But as each year passes, that number decreases significantly.

And so, all we're saying is it's time for industry to catch up to where technology is and as I sit here today, I don't have an ask for NCOIL today. What considerations we may be coming back with are maybe to seek amendments to the NCOIL insurance e-commerce Model once we know specifically how we want to attack this language-wise. It may require a new Model. But my purpose here today is to let you know about the work we are doing with the NAIC and the engagement there. We will eventually be hearing back from them as I mentioned they have that survey and they're still looking at the survey results. Ultimately, they're going to put together a game plan on how to tackle this but there's going to be a legislative need. There's a regulatory need and there's going to be a legislative need. And so, I'll continue to update this Committee as we move forward but I wanted to at least get you on sort of the same level of where we are, and what we as an industry are doing and then kind of go forward from there.

Rep. Jordan stated that it's important to always be mindful and cognizant of rural areas because I can tell you in Louisiana we have a lot of places that are rural areas that don't have broadband. And that's always an issue of concern for us and I know it's an issue as well in other parts of the country. Mr. Feeney stated that the industry understands that and ultimately it would be if we decide to say make electronic delivery the standard there's always going to be an opt out so that people who don't want to get things electronically, they just say continue to send paper. So, that's why I wanted to make sure I said today this initiative is never going to take paper away because we understand and appreciate that paper is always going to be the primary method for some people. But as I said, as each year passes, technology advances and people just want to be able to be kept up with where technology has gone.

DISCUSSION ON TRENDS IN THE USE OF ARTIFICIAL INTELLIGENCE IN INSURANCE UNDERWRITING

Neil Spector, President of Underwriting Solutions at Verisk thanked the Committee for the opportunity to speak and stated that my role is to lead really all the products and services that Verisk has in the property and casualty business to insurers. And so, today I was asked to come and talk a little bit about the use of automation and AI and the customer experience in insurance. So, before I get started, I did want to say that consumer expectations are changing and when we think about this topic we have to start with what do consumers want. I think about myself and my personal situation, I'm sure many of you are in the same situation. I'm probably on the Amazon website at least every other day and the Amazon truck is coming to my house multiple times a week. It's a good experience. You get on, you find what you want. They are using AI and machine learning to figure out what things I need and they're sharing that so any time I go to a streaming site to watch a movie I get recommendations for different things that I might be interested in watching. And so, I think as consumers our expectation of how we interact is changing. Even the last time I took my car in for service, I did everything through an app. I scheduled the appointment, I interacted with the dealership with what I wanted and I never talked to a person and so I think it's important that we understand that as an industry insurers are living in that world. We're living with consumers who are expecting much more digital experiences and I think over the last two and half years it's just accelerated with the pandemic with people just getting more used to virtual and remote needs and wants.

So, as we think about the underwriting process and the application process for insurance and I'm sure we have all had experiences whether it's your car or home, or life insurance, the application process can be frustrating. Partially, it's frustrating because insurers ask a lot of questions that consumers don't have the answer to and it's hard when you are trying to buy a complex product and you're not really sure what the information is. And in the case of life insurance, you may have to go get a medical exam, or get blood tests so the process for the consumer is not an ideal process. And so, one of the things that the industry and Verisk as a partner is trying to do is to make that experience easier for the consumer and in today's world when you think about the availability of data there's a lot of data out there that you can get access to, to help that process that it makes a better process because the end result for the consumer might be the wrong coverage. I don't know how many of you know what the shape of the roof of your house is, but it actually matters because the cost to replace that roof is dependent on what shape that roof is. Most people don't know what it is. A lot of people don't know how old their house is. But those are all factors that insurers need to understand. So, I think it's very important that we look at this technology as a way to improve both the experience for the consumer in getting insurance but also getting the coverages that they need.

There's other things that are impacting with this new kind of consumer experience and some of them are what I would consider emerging risks that both insurers and consumers have to deal with. Some of those are just the risk of cybersecurity. And you think about cyber risk, today it's big cyber attacks is a big concern for all of us but also the growth of the gig economy and sharing economy. You've got people driving for Uber or using their home or apartment as an Airbnb. It changes the nature of risk and these are all changing the challenges that insurers have in order to properly insure. And then, today's consumer, because they expect to interact using technology, insurers have to be able to offer those solutions. So, one of the things that Verisk does is help our customers by leveraging the technology so the consumer gets a better experience so they can use a smartphone to adjudicate a claim or to do underwriting and to change their policy and make changes to their policy. There's a lot of new data that is available today that insurers are using that give rise to this type of technology. I'll just mention a couple of them. We're all familiar with usage based technology and usage based insurance. You know, it started out with technology, it could plug into a vehicle. It evolves to smartphones that can be used to help track driving behavior and to direct connections with Original Equipment Manufacturer (OEMs) and auto manufacturers to driving history behavior.

This is something that's of great value and I think you become more interesting to consumers as people drive less, they work home more. Their interest in having some of this driving being shared with their insurers so that they get the benefits of the safer conditions and again, we're working with OEMs to be able to provide that information to insurers. I do want to highlight that consumer consent is a very important process when it comes to insurance-based solutions - or the internet of things and telematics. Both getting the consumer's consent to collect the data, and also getting their consent to use the data. But usually when that is done well, the consumer benefits through insurance discounts. Virtual technology became very popular two years ago when we were faced with shutdowns and insurers could not get out to the homes of their policyholders and so using a smartphone app to interact with a customer to be able to both interact on underwriting insurance and also adjudicating claims became something that was very important. If you think about the process of having to schedule somebody to come out and see your home and do an inspection of your home, I think most people would rather have a smartphone and be able to go around and take some pictures and video and interact with their insurance company that way at their convenience. So that's another example of how this technology can benefit consumers.

And then there's data that's available, public data such as building permit data for example that Verisk has access to that can help identify that a roof's been replaced recently. Or the home systems, maybe it's an older home but the plumbing systems and the wiring systems have all been updated. That's important information for an insurer to know. You can get a price knowing that those systems are newer. So again, that data can help both from a consumer and from an insurer perspective. And then, the unstructured data that's available out there and I'll use an example of small businesses. Insurers are really trying to provide better solutions for small business owners to either be able to get coverage online or be able to get more coverage quickly and they can use information that you can glean about a business to be able to identify the risks and be able to properly price that risk without the business owner having to answer 100 questions about their business. And so again, this ends up a much better experience. So, these are just all good examples of how AI can be used in the underwriting process in a good way.

Life insurance is another industry that can benefit a lot from this technology. I would argue that the life insurance underwriting process is probably at least a decade behind P&C as far as the type of experience and also the analytics that get used. There's definitely a coverage gap and it's difficult for life insurers to get the message out about the importance of it and I think that given the last two years probably the need for life insurance has grown. So, being able to help those customers with better digital experiences and be able to provide people with a better way to get life insurance from some of the traditional tools is something that's very important and something that life insurers are looking to do so that they can both grow their business and also address the coverage gaps that exist out there. During the pandemic what we saw is an increased demand for life coverage. You've seen a growth in premiums and you've seen a growth in the number of policies over the last two years but the front end process by which people get life insurance really hasn't changed that much and so as I mentioned earlier, some of the ways technology can be used is with consumer consent. Being able to use electronic health records rather than having to go for medical exams. Being able to use voice recognition models to determine if someone's a smoker or not to avoid having them take a blood test when you can tell that they are not a non-smoker. So, these are just some examples of ways that the consumer experience can be better. You can have more growth in there using this technology. But it's done in a consumer private and friendly way.

Data quality is obviously really important as you're doing this type of automation and better customer experience. It really relies on quality data because obviously data is driving a lot of this and if the data's incomplete or outdated or it's not in insurance ready use so that the company can make use of it then you're not going to be able to achieve the benefits. So, from that perspective you need to really understand how the data gets sourced and the data needs to be curated in a way that insurers can benefit and use it. So, one of the things that we do as an organization for example, is collect a lot of these data sets from various either third parties or collect it ourselves and then be able to provide a level of data standardization data quality. The other thing around the side of this is really protection of the data as well because I think that you need to make sure that you have the right protections in place. And so, as data stewards, I'll just say that it's important from our perspective you need to safeguard the data to make sure the data is safe. You need to invest in strong internal governance process so that you understand how the data's being used and then you have to strictly abide by all applicable laws and regulations. So, you need a team of people, we have a team at Verisk that interacts with the regulatory community so that we understand those rules because they change and they are changing. This is an area of great discussion and debate, and change, so we need to make sure that we stay ahead and comply with all of the rules that are out there as far as how the data gets used.

And then, look to build consistency and transparency with how the data's used. I think that consumers are willing to have this data used to their benefit as long as they understand how the data's being used and they have the ability to have a say in it. And so, from a commitment standpoint, we make the commitment to protect the data both from a data security and data privacy standpoint. I'll just say that as time goes on, the type and volume of data that's available in the world is growing exponentially. The data that we have access today, when you think about data from vehicles, data from images captured from the sky, data from internet of things from your wearables. It's proliferating everywhere. And so, therefore there's a lot of opportunity with that data to do good things but it has to be done in a responsible way. It has to be protected and it has to be done in a way that follows regulations with transparency. And so, I think while the opportunity is great, the responsibility is also great for anyone that's a data provider or a data user and for the industry as a whole and how they use it.

Sen. Bob Hackett (OH) stated that all of us here know the issues with underwriting. Do you think consumers are aware of how much AI and data is being used in underwriting? Mr. Spector stated that I would say that data's being used in two ways. One is aggregated data. So, what do I mean by aggregated data? It's where you're going to take all the policies and all the claims from a large population, you're going to work on the data. I don't think the average consumer fully understands how that works in an insurance mechanism but then there's data in a very specific way. It's Neil is driving his car and he's signed into a telematics program and he understands that the insurance company has access to his data and I think from that perspective the consumers do have a good understanding because the industries have done a good job of making sure that in the insurance process those permissions are there whether it's to pull a credit report or look at a motor vehicle report. You know, you need to make the consumer aware of the things that you're going to be getting on their behalf. So, I think from that level there's pretty good transparency but I'm not sure at the aggregated level that people appreciate how much data is out there in the world and then I would just say that I'm not sure we've all sat down and thought of the implications of our wearables. But certainly, the fact that I exercise every day, if that's going to be a benefit for my life insurance company to know and lower my premiums that's something I would consider sharing but I also want to understand what exactly are they getting access to. Are they getting access to a general score, or do they know how long my workout was this morning? So, I think transparency's going to be important to make people comfortable.

Rep. Rowland stated that my retail insurance agency recently contracted with an InsurTech startup called Openly and they do homeowners insurance and they kind of sold themselves to us on the fact that we for most quotes, we only need to enter three pieces of data. The name, the date of birth, the address, and they've got the rest of it. As AI becomes more available and technology becomes more available to insurance carriers, do you see a trend of the carriers are going to move towards less data entry by the agents or the consumers to get those quotes because it'll all be available to them behind the scenes. Mr. Spector replied absolutely. That is definitely the way things are going. I think that it's still important that you give the consumer the opportunity to confirm. So, if you give your name and address and they give you a quote, they should tell you what they base that quote on and if you look at it and you say, well you based it on a 3,000 square foot home, and my home is only 2,000 square feet then they need to have that adjustment. So, there's definitely a confirmation step that needs to take place but yes I think that this is the way it's going because I think consumers don't want to fill out a 50 page form. And like I said, a lot of data that they ask for is data you don't have easily accessible. Even in an auto insurance quote, I don't want to run down to my car and look at the VIN off of it or pull up my prior policy. If they have that information, I'd rather just have them pre-fill it.

Rep. Rowland stated that there's a lot of data out there. There's going to be even more data. How is that data protected? Mr. Spector stated that I can speak to how Verisk thinks about protecting data and I think every organization has a responsibility to protect the data that we have. We look at protection from a couple perspectives. One is the physical protection of the data because there's a lot of cyber attacks out there and you want to make sure that the data's protected from both internal and external threats. So, we think about encryption and even tokenization which is an even higher level of protection that encryption. You want to look at who has access to data and make sure that you have good governance so that only people that are appropriate have access to data. That's quite costly and actually quite rigorous and you also have to make sure that all of your systems are patched regularly and that you're keeping up to date with all the cyber alters out there and even with all of that, companies still have issues but that's why data encryption and tokenization is so critical because if bad guys get access to the data, they don't get anything of value so there's that physical security. But more than just physical security, there's data privacy and there's also the reason by which you got data. So, many companies contribute data to Verisk and they contribute it for specific purposes so we need to make sure from a governance perspective that we're only using the data in the ways that it was given to us and that requires a level of internal governance and a set of controls. We have audits that come in and audit the business on a regular basis to make sure that nothing's changed since the prior audit. So, data security and data protection is a big deal and I would say it's one of the most important things that go one at Verisk because we view ourselves as data stewards and I would hope any company that has access to data would treat it that way.

Rep. Brian Lampton (OH) asked how do you verify the accuracy of all of that? Mr. Spector stated that accuracy of data is a challenge because there's always the potential that data is inaccurate. So, one of the ways you can do that is triangulate multiple data sources. So, one of the things we do at Verisk is we get data from a lot of different places and if we have multiple data sources for a single piece of data, we'll compare them and if three sources of data all say Neil's home was built in 1972 and we see it from three different sources, we have a higher level of confidence then one. The other way is quite frankly just feedback loop. So, you get feedback from either the customer, the agent, or we do field inspections for commercial buildings. We go out and we're constantly updating the data. So, I think it's a constant feedback mechanism to keep the data quality high.

Rep. Jordan stated that I think we all love the fact that AI creates less friction within the transactions but I'm curious as to what steps are being taken to mitigate some of the biases within AI. Mr. Spector stated that it's a challenge because you build the AI to do something specific,so I'll give you an example. We have a product which we call a risk analyzer and creates a set of territories for insurance that are at census block level. So, a very fine level. And you worry that by doing that you're going to create some kind of bias in there. So, one of the things we did was we looked at urban density and we said, well urban density can be a problem because you go to some cities where there's more population of people and you're going to have some disparate impacts from that. So, we actually created an algorithm to take that out and we basically removed population density from the model so that it was no longer used. So, you constantly need to be looking at the models that you're building and you need to look at them against what disparate actions or outcomes could happen and then you need to make the appropriate adjustments. So, the most important step is testing the models to make sure that you don't have any of that in there and you need the data. So, in many cases you can have census data but you need the data on the risks themselves to be able to understand if you're having a disparate impact in the first place.

ADJOURNMENT

Hearing no further business, upon a motion made by Rep. Lampton and seconded by Sen. Hackett, the Committee adjourned at 5:15 p.m.