

**U.S. DEPARTMENT OF THE TREASURY
FEDERAL INSURANCE OFFICE
FEDERAL ADVISORY COMMITTEE ON INSURANCE**

MINUTES – December 12, 2024

The Federal Advisory Committee on Insurance (FACI) convened virtually via Zoom at 1:00 pm EST on December 12, 2024, with John Doyle, Chair, presiding. A quorum existed for the meeting. In accordance with the Federal Advisory Committee Act, the meeting was open to the public.

Committee Members Present:

JOHN DOYLE, Marsh McLennan, Chair
DANIEL SEROTA, proxy for Eric Andersen, Aon
AMY BACH, United Policyholders
MARTIN BOGUE, AIG
BRENDAN BRIDGELAND, Center for Insurance Research
KERMITT BROOKS, Guardian Life Insurance Company
LEE SHAVEL, Verisk
MICHAEL CONWAY, Colorado
IAN ADAMCZYK, proxy for Rob Falzon, Prudential
DOUG HELLER, Consumer Federation of America
DAMON HART, Liberty Mutual
MICHAEL HUMPHREYS, Pennsylvania Department of Insurance
PETER KOCHENBURGER, University of Connecticut School of Law
CAROLYN KOUSKY, Environmental Defense Fund
LAURA LAZARCZYK, Zurich North America
KEVIN O'DONNELL, RenaissanceRe
BRIAN FJELDHEIM, proxy for Andrew Stolfi, Oregon Division of Financial Regulation
JOHN SEO, Fermat Capital Management
JULIE SPORE, Transamerica
BETSY WARD, MassMutual
MICHAEL WISE, South Carolina Department of Insurance

Department of Treasury Staff Present:

STEVEN SEITZ, Director, Federal Insurance Office (FIO)
JOHN GUDGEL, Designated Federal Officer, Senior Insurance Regulatory Policy Analyst, FIO
ANDREW SHAW, Senior Insurance Regulatory Policy Analyst, FIO

Also Present:

ERICA DAVIS, Guy Carpenter
JESS FUNG, Guy Carpenter

Welcome and Opening Remarks by FACI Chair John Doyle

Chairman Doyle opened the meeting and provided an overview of the agenda. Then he introduced FIO Director Steven Seitz.

Director Seitz Update on FIO Activities

Director Seitz first noted that this would be the last meeting for members Betsy Ward and Birny Birnbaum and thanked them for their service. He also thanked all the FOCI members for their participation and valuable input on a number of important issues over the past year. Director Seitz then reported on an important milestone last week at the annual conference of the International Association of Insurance Supervisors (IAIS) in Cape Town, South Africa, where IAIS members adopted the Insurance Capital Standard (ICS). Importantly for the United States, the IAIS Executive Committee had earlier finalized the comparability assessment for the U.S.-developed Aggregation Method, concluding that the U.S. Aggregation Method provides a basis for implementation of the ICS to produce comparable outcomes. Relatedly, in November, Treasury and the Federal Reserve released their Joint Report to Congress on “The Impact of the Insurance Capital Standard on Consumers and Markets in the United States.” Director Seitz also reported that FIO continues to examine potential forms of a federal insurance response to catastrophic cyber risk, including how commercial cyber insurance may mitigate the effects of a catastrophic cyber incident and bolster our nation’s economic resilience.

Doug Heller asked about the status of several reports that FIO has been working on. Director Seitz stated that FIO continues to make progress.

Birny Birnbaum thanked FIO for the opportunity to serve on the FOCI.

Presentation on *Outlook on AI-Driven Systemic Risks and Opportunities* by Erica Davis and Jess Fung of Guy Carpenter

Erica Davis and Jess Fung gave a presentation on Guy Carpenter’s recently released report series, *AI-Driven Systemic Risks and Opportunities*. They noted that AI is now more commonly used in companies’ work and operations and companies must evaluate the tradeoffs between AI risks and opportunities. Also, AI impacts cyber risk: it makes cyber attacks more available to malicious actors and increases aggregation risk.

Jess Fung presented the key findings from two key reports in the series. The first paper, *Artificial Intelligence: A Multiprong Driver of Cyber Aggregation Risk*, is a conceptual discussion on four new dynamics driving aggregation risk, including presenting (1) an additional software supply chain threat, (2) new attack surfaces, (3) data privacy issues, and (4) other security issues. The second paper, *Outlook on AI Driven Systemic Risk and Opportunity*, was the focus of today’s presentation. The study was done in coordination with CyberCube. Ms. Fung summarized the study’s review of the cyber kill chain and how AI can make cyber attacks faster, more efficient, more frequent, and more severe. Machine learning also can help threat actors get information for attacks more quickly and more efficiently. But AI can also be used by defenders. The speed of implementing AI for security is different depending on the size and sector of the firms using it. Ms. Fung then reviewed two counterfactual examples. Ms. Fung concluded by noting that Guy Carpenter plans to continue its research on the interaction of AI and cyber risk.

Member Kochenburger asked about how AI might impact claims frequency and severity. Ms. Fung said that AI could better cause cloak attacks and make them harder to detect. This could also allow longer dwell time leading to higher severity.

Member Hart asked about AI creating false documentation like medical files and how this could increase liability claims. He asked whether Guy Carpenter is looking at this. Ms. Fung said: not yet. Their focus is on the increasing speed and severity of attacks.

Member Birnbaum noted the costs to consumers. He also noted that insurers can be the source of cyber risk and that this indicates a need for AI guardrails.

Presentation on *Recent IAIS Activities and the Joint Treasury/Federal Reserve Report on the Insurance Capital Standard* by Andrew Shaw of FIO.

Mr. Shaw presented on recent IAIS activities and the joint Treasury/Federal Reserve report on the ICS. He began with some background on the report and how it was intended was to look at the impact of the ICS on U.S. consumers and markets. The study also looked at data availability and data confidentiality issues. He flagged that the IAIS develops insurance standards but does not possess any legal power to impose its standards on its members. Given the possible negative impacts of the ICS, the states indicated that the ICS is not appropriate to U.S. market. Instead, the states plan to implement the Aggregation Method as an alternative to the ICS. Mr. Shaw concluded by reviewing upcoming IAIS events and activities through 2027.

Member Bogue asked about the oversight of ICS implementation in 2026 and 2027, in regard to monitoring and testing of ICS implementation. Director Seitz noted that this is the end of a major phase of IAIS work. This is the flagship policy development work the IAIS over the past decade. The implementation phase will start in the next few months.

Member Birnbaum asked about the comparability of the ICS across countries, noting there is no comparability across U.S. states. Director Seitz stated that the IAIS has provided the reference content for comparability. Member Birnbaum also asked about the market impact of the ICS and the data limitations to properly assess the impact. Director Seitz stated that, by and large, the states have indicated that they are not going to adopt the ICS and will rely on the Aggregation Method which will be implemented through the Group Capital Calculation (GCC). In regard to the data analysis piece, we are looking at the flaws in the market adjusted data approach.

New Business/Update on Old Business

Chairman Doyle confirmed that FACI members had no new business, then adjourned the meeting.

MEETING ADJOURNED AT 2:09 PM.

I hereby certify these minutes of the December 12, 2024, Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.

John E. Gudgel

John Gudgel, Designated Federal Officer, FACI