

**U.S. DEPARTMENT OF THE TREASURY
FEDERAL INSURANCE OFFICE (FIO)
FEDERAL ADVISORY COMMITTEE ON INSURANCE (FACI)**

MINUTES – September 26, 2024

The Federal Advisory Committee on Insurance (FACI) convened in person and via Zoom at 1:30 pm EDT on September 26, 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, Chair, Marsh McLennan
AMY BACH, United Policyholders
AMY BEARD, Indiana Department of Insurance
BIRNY BIRNBAUM, Center for Economic Justice
MARTIN BOGUE, AIG
BRENDAN BRIDGELAND, Center for Insurance Research
JILL BROWN, proxy for Betsy Ward, MassMutual
MICHAEL COHEN, proxy for Kevin O'Donnell, RenaissanceRe
MICHAEL CONWAY, Colorado Division of Insurance
BRIAN FJELDHEIM, proxy for Andrew Stolfi, Oregon Department of Insurance
DAMON HART, Liberty Mutual
DOUG HELLER, Consumer Federation of America
MICHAEL HUMPHREYS, Pennsylvania Department of Insurance
EDMOND JORDAN, Louisiana House of Representatives
PETER KOCHENBURGER, University of Connecticut School of Law
CAROLYN KOUSKY, Environmental Defense Fund
LAURA LAZARCZYK, Zurich North America
YANCY MOLNAR, proxy for Joseph Wayland, Chubb Group
ELLIE NIEVES, proxy for Kermitt Brooks, Guardian Life Insurance Company
LAUREN SARPER, proxy for Rob Falzon, Prudential
DANIEL SEROTA, proxy for Eric Anderson, Aon
LEE SHAVER, Verisk
JULIE SPORE, Transamerica
JOANN SYROKA, proxy for John Seo, Fermat Capital Management
MICHAEL WISE, South Carolina Department of Insurance

Department of Treasury Staff Present:

JEANETTE QUICK, Deputy Assistant Secretary for Financial Institutions Policy
STEVEN SEITZ, Director, Federal Insurance Office
KRISHNA KUNDU, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office
ANDREW SHAW, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office
BROOKE STRINGER, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office
KYRA BAFFO, Policy Analyst, Office of Cybersecurity and Critical Infrastructure Protection (OCCIP)
JOHN GUDGEL, Senior Insurance Regulatory Policy Analyst, Federal Insurance Office

Also Present:

GREG ESKINS, Marsh Specialty
ANDREAS SCHMITT, Zurich Insurance Group

Meeting Called to Order by FACI Chair John Doyle, Roll Call, and Introduction of New Members

Chairman Doyle called the meeting to order and asked for a roll call. After the roll call was taken, five new FACI members introduced themselves: 1) Amy Beard, Commissioner of the Indiana Department of Insurance, 2) Martin Bogue, head of Government Affairs and Regulatory Relations at AIG, 3) Brendan Bridgeland, Executive Director of the Center for Insurance Research, 4) Lee Shavel, President and CEO of Verisk, and 5) Michael Wise, Director of the South Carolina Department of Insurance.

Welcome and Opening Remarks by FACI Chair John Doyle

Chairman Doyle welcomed the new members and provided an overview of the agenda. He then introduced FIO Director Steven Seitz.

Director Steven Seitz Update on FIO Activities

Director Seitz reported that, since the June FACI meeting, FIO hosted two roundtables at Treasury: one on title insurance in July, and one earlier this month focused on Artificial Intelligence (AI) in the insurance sector. FIO is analyzing insurance data for owner-occupied homeowners multi-peril insurance policies between 2018 and 2022. FIO also continues to examine potential forms of a federal insurance response to catastrophic cyber risk, including how insurance can mitigate the effects of a catastrophic cyber incident and protect U.S. economic resilience. FIO remains engaged in discussions regarding the Insurance Capital Standard (ICS) at the International Association of Insurance Supervisors (IAIS), and FIO continues to coordinate with the National Association of Insurance Commissioners (NAIC), state insurance regulators, and the Federal Reserve on the finalization of the design of the ICS and the aggregation method comparability assessment.

Presentation on *Closing the Cyber Risk Protection Gap* by Greg Eskins, Global Cyber Product Leader and Head of the Global Cyber Insurance Center at Marsh Specialty, and Andreas Schmitt, Global Cyber Underwriting Manager at Zurich Insurance Group

The presenters explained that the purpose of the joint study with Marsh Specialty and Zurich was to encourage deeper discussion on how to close the cyber protection gap through forming a public-private partnership before any potentially catastrophic cyber event. Also important is incentivizing cyber resilience for small to medium businesses (SMBs). The protection gap is the difference between economic loss and insured loss and, based on a study from the Global Federation of Insurance Association, this gap is around \$1 trillion. There is also an unquantifiable gap associated with catastrophic events arising out of a critical infrastructure failure or any kind of cyber warfare. Silent cyber exclusions and cyber exclusions on property and casualty policies are pervasive. The joint study therefore proposes a three-pillar approach to this issue. The first pillar is to strengthen total resilience including not only SMBs, but also critical infrastructure. The second pillar is to address quantifiable catastrophic risks. Managing unquantifiable cyber risks through a public-private partnership is pillar number three.

Additional points made by the presenters included that aggregation modeling has improved dramatically. Critical infrastructure—such as banking, financial services, energy, and telecommunications—are some of the most well protected organizations, and they are seeking to improve risk transfer. Collaboration on insurance data, incident data, and threat data helps the potential classification of catastrophic cyber events on a country, regional and a global level, but it requires a structure with safe harbors so data can be shared. Many SMBs remain underinsured or uninsured. Much can be done around education, simplifying the process of purchasing insurance, encouraging organizations to take up existing tools to develop resiliency needed, and having more businesses insured. There is a need to distinguish between mechanisms for SMBs versus those for large organizations. The recommended framework would include quantifiable coverage by the insurance sector and, above a certain threshold, co-insurance by the public sector. The presenters stated that unquantifiable exposures call for a public-private partnership.

Proxy Nieves asked if the public-private partnership envisioned is something that might be analogous to a guarantee association for cyber risk? Mr. Eskins answered that the concept of what TRIA sought to accomplish is probably more appropriate.

Member Heller asked about the role of insurers and brokers in helping SMBs with cyber hygiene and affording policies. Mr. Schmitt answered that the insurance industry should provide cyber resilience services to the SMBs to bring them to the insurable level and then work to improve their risk posture and help secure cyber insurance at an affordable price. Member Bogue noted that the insurance industry can be helpful, but the customer must apply for it.

Member Bach asked how do we make sure that the government does not get all the risk and the carriers get all the rewards? If the government creates a high dollar cyber risk exposure pool like TRIA, would it also include requiring the use of specific cyber controls or services? Mr. Eskins answered that the establishment of best practices—with harmonizing regulations to what level of security should be required of certain organizations—should be a part of this approach.

Member Kochenburger noted that conflicting data standards and privacy concerns are significant obstacles and asked for recommendations for overcoming these obstacles. Mr. Eskins answered that the idea of harmonizing, especially regarding highly regulated entities, is important.

Member Humphreys ask about the war exclusion. Mr. Eskins noted that the exclusions did not actually define the term war and that Lloyd's created a new clause that separated physical war and cyber operations. These new form exclusions created a threshold that suggested that if there was a major detrimental impact to the functioning of the security or of a nation in general, that would trigger the exclusion.

Presentation on *Recent and Upcoming IAIS Activities* by Krishna Kundu and Andrew Shaw, FIO

FIO staff reported that, last week in Washington, DC, the IAIS held meetings for the ICS taskforce, the Macroprudential Committee, and the Executive Committee. The IAIS macroprudential activities are governed by the Holistic Framework. Upcoming milestones for the IAIS macroprudential work include finalizing the updated supervisory materials in the fourth quarter and finalizing and approving ancillary indicators in 2025. There also will be a review of the individual insurer assessment methodology and completion of the FSB review of the Framework. The IAIS is currently consulting on an application paper related to operation resilience objectives for the insurance sector. The analysis of 2024 ICS data submissions is ongoing. Discussions at the IAIS have already started on ICS implementation. Design of the aggregation method will be finalized in the fourth quarter of this year.

Member Spore asked what work the IAIS is doing on structural shifts in the life insurance sector? FIO staff noted that, next year, an IAIS focus will be on ICP 13, which are the reinsurance standards. In addition, overarching themes for IAIS discussion include the broader macroeconomic landscape and the transformation of the life insurance sector. This year's GIMAR will have a section relating to the IAIS's monitoring of those activities.

Presentation on the Office of Financial Institutions Policy Request for Information, *Uses, Opportunities, and Risks of Artificial Intelligence in the Financial Services Sector* by Deputy Assistant Secretary for Financial Institutions Jeanette Quick

Deputy Assistant Secretary Quick discussed last year's executive order on AI and how Treasury is promoting responsible innovation in AI within financial institutions. As part of these efforts, in March, Treasury released a report providing an overview of current use cases of AI and best practices for cybersecurity in fraud prevention in the financial services sector. In June, Treasury issued a request for information (RFI) on the current uses, opportunities, and risks of AI in the financial services sector. Treasury received over 100 comments in response to the RFI, including many from the insurance sector and consumer associations. Commenters explained that

insurers are using AI in various aspects of the insurance business, including claims processing, underwriting, marketing, fraud detection, and rating. Some insurers are implementing new risk management practices and internal governance protocols, adding language to consumer notices to describe how the company uses AI, implementing new testing procedures of AI tools, and making changes related to data and AI systems purchase from third party vendors. Many of these issues were discussed at the AI roundtable that FIO hosted. Deputy Assistant Secretary Quick concluded that, as AI innovations continue to advance in the insurance sector, it is crucial to continue to deepen our understanding of the uses, opportunities, and risks of AI tools.

Proxy Fjeldheim asked if FIO has been engaged with NAIC's workstream around AI and machine learning? Director Seitz answered that FIO has been engaging closely with the NAIC.

Member Kochenburger asked how AI is being used in claims, noting there are obvious benefits like streamlining claims and more accuracy in prediction, but there is also the risk of using predictive models to determine claim value. Deputy Secretary Quick answered that those are important questions to consider.

Presentation on *Artificial Intelligence (AI) Roundtable* by Brooke Stringer, FIO

FIO staff reported on FIO's roundtable on AI in the insurance sector. The roundtable participants included representatives from the insurance industry, consumer groups, academia, and state insurance regulators. The participants discussed a variety of issues associated with the use of AI in insurance, including potential benefits and challenges.

Member Bogue asked whether the industry has the expertise both on the business and regulatory side to implement and use AI correctly? FIO staff answered that some of the participants served on NIST's AI Safety Consortium and suggested that best practices from other sectors can help inform the insurance sector.

Member Hart asked that since AI is such a rapidly evolving area do you plan to re-convene the roundtable in 2025? Staff noted that FIO is evaluating next steps.

Member Heller asked whether FIO might consider collecting data on the specific uses of AI? FIO staff noted that the RFI responses provided important feedback regarding industry uses.

Presentation on *Project Fortress and OCCIP Cloud Initiative* by Kyra Baffo, Treasury's Office of Cybersecurity and Critical Infrastructure Protection (OCCIP)

Project Fortress is a newly launched OCCIP program that aims to improve the security and resiliency of the financial sector through proactive cyber defense information sharing and enhancing the public private partnership that OCCIP has with the sector. It is focused on taking existing information sources that OCCIP distributes to the sector and making them more usable. OCCIP is partnering with the Pacific Northwest National Laboratories, CISA interagency partners, and financial sector institutions who are volunteering to share data. Project Fortress also includes free vulnerability and web application scanning services that are offered to the sector. It also provides participants with access to a shared space for Treasury and cleared industry professionals to gather and share information, as well as to collaborate on both tactical and strategic issues relevant to the sector. OCCIP encourages more industry participation, especially from the insurance sector.

Member Shavel asked if any focus has been given to transactional networks that a highly interconnected financial system may be exposed to, where connectivity points are potential threat vectors? Staff explained that OCCIP had a program called Secure which was focused on mapping the interrelated or interconnected components of the financial system with the purpose of determining where there were single points of failure or dependencies that could represent a security risk. It is still being used by OCCIP for risk modeling and sector risk assessments.

New Business/Update on Old Business

Member Heller asked about the status of the auto insurance affordability report. Director Seitz said FIO is continuing to assess these issues.

Member Heller asked about the status of the homeowners' data call with the NAIC, Director Seitz answered that FIO has been getting regular updates from the NAIC. Member Birnbaum advocated for making the aggregated data public.

Chair Doyle confirmed that FOCI members had no new business and then adjourned the meeting.

MEETING ADJOURNED AT 3:50 PM.

I hereby certify these minutes of the September 26, 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