

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

**MINUTES – June 1, 2023**

The Federal Advisory Committee on Insurance (FACI) convened at 1:30 pm on June 1, 2023 via Zoom, with John Seo, Proxy 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 SEO, Fermat Capital Management, Proxy Chairman for John Doyle  
AMY BACH, United Policyholders  
BIRNY BIRNBAUM, Center for Economic Justice  
KERMITT BROOKS, Guardian Life Insurance Company of America  
BILL CHURNEY, Verisk  
MICHAEL COHEN, Proxy for Kevin O'Donnell, RenaissanceRe  
MICHAEL CONWAY, Colorado Division of Insurance  
MICHAEL DELONG, Proxy for Doug Heller, Consumer Federation of America  
ROB FALZON, Prudential  
LUCY FATO, AIG  
DAMON HART, Liberty Mutual  
MICHAEL HUMPHREYS, Pennsylvania Department of Insurance  
EDMOND JORDAN, Louisiana House of Representatives  
CAROLYN KOUSKY, Environmental Defense Fund  
LAURA LAZARCZYK, Zurich North America  
BILL SCHWEGLER, Proxy for Julie Spore, Transamerica  
ANDREW STOLFI, Oregon Department of Insurance  
BETSY WARD, MassMutual  
JOSEPH WAYLAND, Chubb Group

**Department of Treasury Staff Present:**

STEVEN SEITZ, Director, FIO  
STEPHANIE SCHMELZ, Deputy Director, FIO  
JOHN GUDGEL, Senior Insurance Regulatory Policy Analyst, FIO  
KRISHNA KUNDU, Senior Insurance Regulatory Policy Analyst, FIO  
ANDREW SHAW, Senior Insurance Regulatory Policy Analyst, FIO

**Also Present:**

BILL PIERONI, President & CEO, ACORD

**Welcome and Opening Remarks**

Chairman Seo opened the meeting and welcomed two new FACI members: Michael Humphreys, Commissioner, Pennsylvania Insurance Department, and Kevin O'Donnell, President and CEO, RenaissanceRe (not in attendance).

**Director Seitz Update on FIO Activities**

Director Seitz thanked John Seo for agreeing to be proxy Chair for John Doyle at today's meeting. He

welcomed the new FACI members and provided an update on FIO activities.

FIO continues to monitor how the insurance sector is being affected by the current macroeconomic environment including the increased focus by the sector and regulators on capital adequacy and liquidity risk, the growing interconnectedness of the insurance sector with the financial system and offshore markets, the increasing size and complexity of insurers, and their implications for supervisors.

FIO expects to release its report assessing climate-related issues and gaps and the supervision and regulation of insurers later this summer. FIO's other major climate priority is its proposed data collection of current and historical underwriting data on homeowners' insurance from certain property and casualty insurers.

FIO continues our work with the White House's Office of the National Cyber Director and the Cyber Security and Infrastructure Security Agency to assess if there is a need for some form of federal insurance response in connection with potential catastrophic cyber incidents involving critical U.S. infrastructure. In the coming months, FIO will do further analysis and engagement on the issues of insurance for catastrophic cyber incidents, including how this issue may interact with the Terrorism Risk Insurance Program (TRIP) and terrorism risk insurance more broadly.

FIO is also increasing its participation in the International Forum of Terrorism Risk (Re) Insurance Pool (IFTRIP), which consists of various member countries that support the insurance and reinsurance for terrorism risk. As part of FIO's work administering TRIP, FIO is a member of IFTRIP and will be taking on more of a leadership role, reflecting the importance of international engagement in cross-border areas such as terrorism and cyber risk.

Director Seitz closed by giving a brief update on FIO's work regarding personal auto insurance, noting that auto insurance has been a focus area of the FACI, and appreciates the continued engagement with FACI members on this subject. In response to Member Birnbaum question about when FIO expects to issue the update to the personal auto insurance affordability report, Director Seitz noted that it remains a FIO priority and that FIO is using a multi-faceted approach to look at some of the issues that FACI members have raised regarding structural market changes, use of big data, artificial intelligence, and non-driving factors.

### **Presentation by Bill Pieroni on Insurance Digital Maturity and the Future of Technology in Insurance.**

Bill Pieroni stated that he will be discussing insurance and technology, past, present, and a bit of the future. His presentation is a synthesis of three pieces of recent research on: 1) Digitalization, 2) InsurTech tracking, and 3) a 20-year outlook, looking backwards and forwards for technology and business issues.

He presented his first chart that looks at IT investment for a carrier as a percent of premium, with a global average of 3.5 percent of premium balance. Looking at the 20-year result there is not a correlation between share returns, free cash flow, etc. Many carriers are waiting to see if these technologies warrant investment. His second chart looks at technologies that are explicit, things like software that you can touch and hold. The issue is if insurers systematically under-invest over time, they build up a "technical debt." There is no accrual to the balance sheet for systematically under-investing in technology, but ultimately there is a moment of truth.

For the digitization study ACORD examined the top 200 insurers worldwide writing \$3.4 trillion in gross written premiums and representing over 60 percent of all premiums globally. The sample included primary carriers and reinsurers, and examined premium compound annual growth, EBITDA, cash flow generation, total show of returns, and maturity level versus outcomes. Six percent of the sample were digitized competitors, and 11 percent were digital laggards. Digital laggards are those firms who under-invest and have limited awareness of digital capabilities. Digitized competitors, on the other hand, really embed technology within their strategic impact. The total shareholder returns for digital competitors versus digital laggards is, over time, more than two

times greater, reflecting capacity and competency around profitable growth, and treating consumers well.

He then discussed ACORD's 20-year outlook. The ACORD survey asked 36,000 participant communities about their past and future business and technology perspectives. His focus today was on Internet of Things (IoT) and Artificial Intelligence (AI) findings. IoT includes sensor capabilities - infrared, smoke, temperature, vitals for a patient, water quality, etc. Today there are insurers using this technology to underwrite, rate, and manage personnel loss and logistics. ACORD thinks of AI as data. AI makes predictions and recommendations, after starting with flat files, then relational data and prescriptive analytics. AI is really the ultimate conclusion of data. Machine learning is a subset of AI that involves algorithms that are used to analyze all that data, learn from it, and predict. Fortunately, it still needs human expertise across key domains, refining, interpreting and deciding how to use it. Most importantly, it needs regulatory and ethical oversight to support privacy, security, transparency, accountability, and impact. It is an important part of enabling AI to have a positive impact in our industry. For the insurance industry, how AI is going to be used needs to start with the intent of the organization. Is it growth, increased level of customer satisfaction, enhanced value propositions? The use cases include product management, finance and accounting, marketing, claims, underwriting and risk management. The last slide shows the rate of change is increasing at an increasing rate over time.

Member Falzon asked if the outcomes for life industry, life and retirement and P&C might be different? Also, how does insurance, separately or combined, fare against other industries in terms of the level of investment that's been made in technology? Finally, how quantified was the approach for laggards versus digital competitors? Mr. Pieroni answered that the life insurance industry spends, on average, about one percent of premium dollars, while P&C is at 3.5, but there is a wide distribution there. The insurance industry has a relatively low IT intensity as a percent of revenue and of profit versus other industries and the industry ranks incredibly low in attracting IT talent. For the comparison of laggards and competitors, repeatable quantitative metrics were used across things like value management, option value, data, and analytics. Member Birnbaum noted that the AI key enablers included regulatory and ethical support and asked: What is the current state of regulatory and ethical support, and what do you see as the necessary path forward to make that a functional enabler? Mr. Pieroni answered that AI is in its early stages, but there is a need for regulatory regimes to help the industry use this technology for impact. There are some regulatory regimes in place and they just need to be allocated resources to be effective.

### **Climate-Related Financial Risk Subcommittee Report**

Chairman Seo gave the subcommittee report. He announced that he and Laura Lazarczyk (Zurich) had agreed to co-chair the subcommittee and had led a subcommittee meeting on May 9. During that meeting, FIO's climate team gave an update on its climate-related activities.

In response to Member Birnbaum question about when FIO expects to issue the climate risk data call, Director Seitz answered that the FIO Climate Team has been meeting with FACI members and other external stakeholders, including NAIC and state leaders.

### **Availability and Affordability of Insurance Products Subcommittee Report**

Subcommittee Chair Birnbaum gave the subcommittee report. He reported that the Availability Subcommittee has not met since the last FACI meeting; however, individual subcommittee members have met with FIO's staff regarding climate security and lifetime income.

### **FIO's International Work Subcommittee Report**

Chairman Seo gave the subcommittee report. The subcommittee held a meeting on April 25 where FIO led a discussion on its IAIS survey response that was due on April 28. FIO is still looking for a FACI member to

chair the subcommittee.

## **Update on Upcoming International Association of Insurance Supervisors (IAIS) Key Projects and Work Streams**

Ms. Kundu provided an update on FIO's work with the IAIS with the stated intent of seeking FACI member views regarding potential areas where the IAIS could increase its focus, such as IAIS processes, need for greater transparency or closer attention to certain evolving risks in the insurance sector. Key upcoming events she highlighted included the Global Monitoring Exercise (GME), the Chief Risk Officer's Roundtable in June, and the Annual General Conference and Meeting in November. She then discussed ten key events that have already taken place this year, highlighting the release of the first consultation on climate-related risk in March. She provided more details on each of the main IAIS projects where FIO is focused including work on the Insurance Capital Standard (ICS); Aggregation Method Comparability Assessment; Climate; Diversity, Equity & Inclusion (DEI); Macroprudential/Global Monitoring; Resolution; Cyber Risk; IT/Third-Party Outsourcing and Operational Risk, and the IAIS Strategic Plan.

Bill Schwegler (proxy) asked about the status of the report to Congress with the results of a study, required under the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018, by FIO and the Board of Governors of the Federal Reserve, in consultation with the NAIC, about the impact on consumers and markets in the United States of the ICS before supporting or consenting to its adoption. Ms. Kundu responded that preliminary discussion has begun on that report and anticipate a report will be published in the third quarter of 2024. Member Falzon noted that the IAIS has recently demonstrated more flexibility on the data collection process but that this continues to be a deeply flawed framework and those flaws particularly impact long duration products that are typically sold in the U.S. He said that it is important as we go through the 2023 data collection that there be engagement with the industry and public hearings. Member Lazarczyk said she wants more detail on specifications around the aggregation model, and more transparency, noting that additional stakeholder engagement would be helpful to provide more clarity on the implementation and what the ICS standard would mean. Member Birnbaum agreed with the need for greater transparency, but expressed concern about views expressed about not being able to rely on the conclusions of the comparability analysis. Member Falzon reiterated that he did have concerns about the reliability of the comparability analysis, noting that the ICS comes up with non-intuitive results under extreme stress scenarios. Ms. Kundu noted that there has been a lot of discussion at the IAIS about the design of the ICS and its appropriateness for the comparability assessment. Mr. Falzon stated that we need to ensure there is not a presumption that the ICS is correct. Chairman Seo also stated that investor managers should be included in the stakeholder engagement to identify and address any potentially harmful, pro-cyclical aspects of the ICS. Ms. Kundu emphasized that public consultation will be open to all across including the board rating agencies, investors, and volunteers.

Ms. Kundu next noted that climate-related risk is a key element of the IAIS strategic plan. The IAIS work on climate touches on many of its activities ranging from financial stability risk assessment, such as the GME, to developing supervisory and supporting material on the form of issues and application papers with recommendations on best practices. The IAIS issued a public consultation in March.

Member Birnbaum noted that climate risk should not be limited to financial risk issues. The more difficult task is managing the availability and affordability of insurance in the face of ever-increasing frequency and severity of climate-related events. Member Lazarczyk stated that the IAIS could help address the protection gap with risk-based solutions and to avoid capital or solvency requirements.

Ms. Kundu noted that the IAIS continues to enhance its work in DEI and is undertaking exploratory work on the insurance sector's efforts to support DEI objectives. The IAIS is also incorporating aspects of DEI in ongoing projects and activities, especially as they relate to corporate governance, culture and conduct.

Member Birnbaum questioned whether improved DEI would address structural racism and overcome the use of data sources and algorithms that reflect and perpetuate historic discrimination.

Mr. Shaw next reviewed IAIS' macroprudential work, primarily the GME which was formally started in 2021 and has been an annual exercise since then. The GME is one of the key elements of the Holistic Framework which includes an enhanced set of supervisory policies, powers of intervention for macroprudential purposes, member assessments, and implementation of enhanced supervisory policy measures. The IAIS has three macroprudential themes identified by members in the annual sector-wide monitoring: 1) lower macroeconomic outlook, 2) high inflation and 3) the rising interest rates. Other themes include climate-related risks as well as structural shifts in the life insurance sector including the involvement of private equity.

Bill Schwegler (proxy) noted that commercial real estate and its impact on the insurance industry is an emerging issue that might warrant attention. Member Falzon stated that he supports the direction that IAIS has taken on the Holistic Framework and the activities-based assessment. All three risk themes and perhaps real estate are relevant. Mr. Falzon also noted the potential for systemic risk that could be associated with the movement of credit provisioning out of the banking system into the private system and then working its way onto insurers' balance sheets in the form of CLOs. Member Birnbaum noted that market conduct issues are a leading indicator of potential financial risks to the system.

Mr. Shaw next reviewed IAIS resolution work addressing matters relating to resolution of maturity and strength, including developing and maintaining supervisory materials and standard setting matters initiated by the FSB and presented at relevant working groups. Mr. Shaw then reviewed IAIS work related to cyber risk, IT third-party outsourcing, and operational risks.

In response to Member Birnbaum's question asking if FIO was involved with the IAIS market conduct working group, the protection gap work stream, or the financial inclusion work stream at the IAIS, Director Seitz answered that FIO is actively engaged on those topics. Member Lazarczyk stated that Zurich supports the regulation or certification of cloud service providers and related third parties. Member Falzon stated that regulators in the industry need to agree on what good looks like from an outcome standpoint.

Mr. Shaw concluded by noting that the FACI International Subcommittee met in April to discuss the IAIS strategic themes and provide input to help inform FIO and inform its response to the IAIS on priorities as the IAIS develops its next five-year strategic plan. Chairman Seo stated support for the digital transformation and operational resilience and cyber themes.

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

### **MEETING ADJOURNED AT 3:18 PM.**

I hereby certify these minutes of the June 1, 2023, Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.



**John Seo, Chair (proxy for John Doyle)**