

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

MINUTES – December 13, 2023

The Federal Advisory Committee on Insurance (FACI) convened virtually via Zoom at 1:00 pm EST on December 13, 2023, 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
ERIC ANDERSEN, Aon
AMY BACH, United Policyholders
MARTIN BOGUE, Proxy for Lucy Fato, AIG
KERMITT BROOKS, Guardian Life Insurance Company
BILL CHURNEY, Verisk
ROB FALZON, Prudential
DOUG HELLER, Consumer Federation of America
MICHAEL HUMPHREYS, Pennsylvania Department of Insurance
ED KENEALY, Proxy for Damon Hart, Liberty Mutual
EDMOND JORDAN, Louisiana House of Representatives
PETER KOCHENBURGER, University of Connecticut School of Law
CAROLYN KOUSKY, Environmental Defense Fund
LAURA LAZARCZYK, Zurich North America
KEVIN O'DONNELL, RenaissanceRe
ANDREW STOLFI, Oregon Division of Financial Regulation
JOANNA SYROKA, Proxy for John Seo, Fermat Capital Management
BILL SCHWEGLER, proxy for Julie Spore, Transamerica
BETSY WARD, MassMutual
JOSEPH WAYLAND, Chubb Group

Department of Treasury Staff Present:

GRAHAM STEELE, Assistant Secretary for Financial Institutions
STEVEN SEITZ, Director, FIO
JOHN GUDGEL, Designated Federal Officer, Senior Insurance Regulatory Policy Analyst, FIO
JEREMY PAM, Senior Insurance Regulatory Policy Analyst, FIO

Also Present:

ELIZABETH KELLY, Special Assistant to the President, National Economic Council

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 noted that FIO remains committed to its work on its proposed climate data collection and continued engagement with the National Association of Insurance Commissioners (NAIC), which would provide FIO with the necessary information to more comprehensively assess the localized impact of climate change on our nation's homeowners insurance markets. FIO will continue to engage and coordinate with the NAIC and state insurance regulators as they continue to scope out their separate data call. FIO will also continue to monitor whether and how the NAIC and the states respond to the recommendations in FIO's Climate Report.

With regard to catastrophic cyber risk, FIO will focus on considering the policy options for some kind of public-private sector collaboration or other federal response. Treasury aims to host a conference during the week of April 22 exploring this topic.

FIO is also prioritizing its work in the International Forum of Terrorism Risk (Re)Insurance Pools, or "IFTRIP." FIO will serve as the Chair of IFTRIP, and next April Treasury will be hosting the 2024 IFTRIP Annual Conference in Washington, DC as part of FIO's work to assume more leadership of this group going forward.

FIO continues to work with the other U.S. members of the IAIS (the NAIC, U.S. states, and Federal Reserve Board). Over the next 12 months, FIO will be closely involved in finalizing the design of the Insurance Capital Standard, as well as engaging in the IAIS's efforts regarding the aggregation method comparability assessment. Also on the international side, in October, the United States and officials from the European Commission and EIOPA conducted a Joint Committee meeting under the auspices of the U.S.-EU Covered Agreement. FIO anticipates that a Joint Committee meeting with UK officials under the U.S-UK Covered Agreement will be held in early 2024.

Macroprudential supervision and financial stability will continue to be a focus for FIO in 2024. In particular, FIO is focusing on the transformation in the life insurance sector, driven by the growing reliance on private credit and alternative investments to back reserves and surplus, the use of offshore reinsurance, and the influx of third-party capital in the annuity business.

Remarks from Assistant Secretary Steele

In Assistant Secretary Steele's remarks, he reflected on some of FIO's work in two priority areas, climate-related financial risk and catastrophic cyber risk. He also discussed artificial insurance (AI) and the insurance sector and the important role that insurance can play in providing economic security to underserved communities.

In terms of work on climate-related financial risk, Assistant Secretary Steele first discussed FIO's June 2023 report on *Insurance Supervision and Regulation of Climate-Related Risks*, which highlights the initial efforts of state regulators and the NAIC to assess climate-related financial risks, while also noting these efforts are fragmented across the states. The report provides 20 recommendations for ways that current state efforts could be expanded and focused and discusses some of the available tools that state insurance regulators could use to address market disruptions. Assistant Secretary Steele also observed that, at the NAIC's national meeting, its Climate and Resiliency Task Force adopted its National Climate Resilience Strategy, which incorporates several recommendations from FIO's June report and provides direction for how states can make progress on addressing climate-related risks.

Assistant Secretary Steele next discussed FIO's efforts for collecting consistent and comparable data that is not otherwise publicly available on the U.S. homeowners insurance market nationwide. FIO released a proposal for public comment in October 2022 and spent a year carefully reviewing the comments received and engaging with numerous stakeholders, including the NAIC, state insurance regulators, insurers, consumer groups, and other stakeholders. Last month, FIO published a revised and streamlined proposal to facilitate a more effective implementation of the data collection. Mr. Steele noted that this data collection has been one of his priorities

since the beginning, and he met personally with the NAIC leadership several times over the course of FIO's work to foster increased coordination and collaboration on the data collection efforts. He emphasized that open, substantive, and consistent discussions between FIO, state insurance regulators, as well as the industry is a priority at the highest levels at Treasury.

In terms of cyber-related risk, Assistant Secretary Steele discussed how Treasury and FIO have been working closely with their partners across the administration focusing on insurance for catastrophic cyber incidents, and whether some kind of federal insurance response – such as a potential government partnership with the commercial cyber insurance market – is warranted. Last month, FIO co-hosted a conference at New York University, where Treasury engaged in a discussion of the important policy issues presented by the reaction of industry and governments to catastrophic cyber risk. Treasury received useful feedback to its request for information from a broad cross-section of stakeholders and has benefited from both extensive industry meetings and internal research on the subject. Mr. Steele noted that it seems that well-designed federal insurance response could address the risks of tail events while incentivizing healthy private sector practices. Thus, he believes that further exploration of the proper federal insurance response to catastrophic cyber risk is warranted and should be undertaken.

Assistant Secretary Steele discussed how AI has the potential to transform the insurance sector. AI can streamline the function and lower the cost of nearly every aspect of the insurance business. At the same time, as with other consumer financial services, the incorporation of AI in insurance raises privacy concerns and the risk of unlawful consumer discrimination. He concluded by noting that FIO is continuing to study these issues and is moving to finalize its report on auto insurance, which will highlight structural changes occurring in the personal auto insurance business, including the use of AI.

Presentation by Elizabeth Kelly on President Biden's Executive Order on Artificial Intelligence

Elizabeth Kelly, special assistant to the president for economic policy at the White House National Economic Council, presented on President Biden's executive order on artificial intelligence, and its implications for financial services.

Ms. Kelly said that generative AI has come to public awareness over the last year but is just one example of the many categories of AI technologies. Financial services companies and the insurance industry have used other classes of AI for years. She noted that AI carries enormous potential benefits, as well as substantial risks. To address the risks, the Biden Administration created the AI Bill of Rights and the National Institute of Standards and Technology (NIST) published the AI risk management framework to guide AI developers and deployers that are evaluating and managing AI's risk. The White House also received voluntary commitments from 15 leading foundation model developers to promote the safe, secure, and transparent development of AI technology.

Most notably, the Biden Administration made an executive order which underscores eight fundamental principles. The first principle is ensuring the safety and security of AI technology and, among other actions, directs the Department of Commerce to develop guidelines and standards for testing the safety of AI models. The second principle is around promoting competition and innovation, and directs the National Science Foundation to launch a pilot with computing power, data, and other resources for AI researchers, and also promotes AI-related measures to support America's workforce and small businesses. The third principle concerns the protection of workers from risks involving job disruptions or displacement from AI. The fourth principle is around advancing civil rights and actions to ensure AI's equitable deployment. The fifth and sixth principles concern consumer protection and privacy. The last principles are around the federal government's use of AI as well as advancing U.S. global leadership on AI.

For financial services, AI can have significant effects on how lenders allocate credit and promote fraud. AI also introduces risks to financial institutions' core infrastructure and can exacerbate cyber security risks. However, the Biden Administration is working to address these risks.

Presentation by Commissioner Michael Conway on the NAIC's AI Bulletin and Colorado AI Regulation

Commissioner Michael Conway presented on the NAIC's recently-adopted AI bulletin and Colorado's AI regulation.

The NAIC bulletin offers a principles-based approach, which will be further enhanced in the future. Bulletin section three has four subsections with core principles. The first subsection provides general guidelines, emphasizing that senior levels at companies need to focus on AI standards for governance, risk management, and transparency. This subsection also recognizes that there are different levels of risk depending on what kind of AI tool is used. Subsection two is about governance and the need for insurance companies to prioritize fairness and transparency, which requires risk management frameworks. It also says that there needs to be some level of testing to ensure that predictive models are fair. Subsection three is about risk management and internal control and the need for insurance companies to build out the proportionate risk concept within their risk management controls as well as incorporate internal controls around data and privacy protections. Subsection four is about third-party vendors. There is a discussion within the bulletin, and an emphasis in the law in Colorado, that whether or not an insurance company is using a third-party vendor, it remains the companies' responsibility to ensure that they are complying with regulations. The subsection is also about market conduct examinations and audits and describes how states will verify that insurance companies are aligned with the principles. Although the bulletin was voted on unanimously, states will implement it differently, but Commissioner Conway emphasized that the consensus around the bulletin is still an important milestone. Colorado believes that they implemented the bulletin through Senate Bill 169 and the regulations created to develop the bill.

Mr. Schwegler asked where the insurance industry is leaning into AI. Commissioner Conway responded that the space is quickly evolving and it depends on the line of insurance; however, the tools will be used broadly. Member Stolfi agreed. Then Mr. Bogue asked if there is any discussion at the NAIC or among regulators about not waiting for the consent order to process that kind of message to the industry. Commissioner Conway responded that as insurance companies test outcomes, states will have different approaches to that question. Commissioner Conway thinks this is a good thing and that over time the question can be fully answered by the states' trial and error. Member Kochenburger said that next the NAIC will need to develop what the principles in the bulletin mean in action and asked whether this is the next step. Commissioner Conway responded that it is one of the next steps but that regulators will get pushed within their own states to fill in some of the blanks. Member Falzon asked how he sees the initiative in Colorado around governance intersecting with the NAIC in terms of creating more uniformity across all the states around data usage. Commissioner Conway said that Colorado built its core governance structure around the idea of fairness and the risk management framework from the bulletin. Colorado pushed for changes on any parts of the bulletin that conflicted with the regulation in Colorado, but they only needed to call out some language about testing. Member Heller asked whether insurers have been forthcoming with the NAIC and state regulators about the various ways they are using AI. Commissioner Conway responded that insurance companies have been forthcoming with the ways that they are using AI although there will always be some protection of trade secrets.

Presentation from Jeremy Pam on the FIO and NYU Conference on Catastrophic Cyber Risk and a Potential Federal Insurance Response

Jeremy Pam, Senior Insurance Regulatory Policy Analyst at FIO, presented on the FIO and NYU conference on catastrophic cyber risk and a potential federal insurance response.

In July 2023, the Biden Administration published the Implementation Plan for the National Cybersecurity Strategy, stating that the administration will "assess the need for a Federal insurance response to a catastrophic cyber" and designating FIO as the responsible agency for the assessment.

To help bring together industry and government participants in the initial stage of the assessment, FIO and NYU's Volatility and Risk Institute organized a conference that took place in New York in November 2023. Industry

speakers at the conference included representatives of three brokers, four primary insurers, two reinsurers, two associations of risk managers, two critical infrastructure sectors, a cyber insurance modeler, and a global insurance think tank. The conference was attended by some 150 other cyber insurance industry stakeholders. Among more specific questions, each panel addressed the framing threshold question of the conference: Is the challenge of insuring for catastrophic cyber incidents sufficiently difficult that further exploration of the appropriate form of a federal insurance response in some form of collaboration with the private sector should continue? Treasury believes that further exploration of the proper federal insurance response to catastrophic cyber risk is warranted and should be undertaken.

FIO aims to host another conference during April 2024 and explore issues raised at the November conference in more detail, including the potential forms that a federal insurance response to catastrophic cyber risk might take.

Update on Climate-Related Financial Risk Subcommittee Activities

Member Lazarczyk provided an overview of the meeting of the FOCI Subcommittee on climate-related financial risk held virtually on December 8, 2023. During the meeting, Steven Seitz and the FIO climate team gave an update on the proposed climate related data collection from insurers. There was considerable subcommittee member questions and feedback.

Presentation by Availability and Affordability of Insurance Products Subcommittee

Member Heller provided an overview of the FOCI Subcommittee on the availability and affordability of insurance products. In addition to receiving a status report on the update to the 2017 auto insurance affordability report from FIO, the subcommittee also reviewed data provided by LIMRA on life insurance and annuity sales, and customer surveys.

Regarding the update to the 2017 auto insurance affordability study, the discussion centered around some members of the subcommittee's comments on going back to the 2021 recommendation that the subcommittee had provided to FIO, to take a two-track approach, in which FIO would produce one report that would simply update the 2017 auto affordability study with more current data and then produce a second report that would examine additional analytic approaches to surveying affordability issues in the auto insurance market. Some committee members raised frustrations about FIO's approach to writing the report and the timeline.


The subcommittee also sought additional data to examine the causes for the decline in purchasing of financial security products and discussed an insurance barometer study from LIMRA. The subcommittee further developed a plan to further discuss ways to analyze and address life insurance affordability and availability issues in 2024.

New Business/Update on Old Business

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

MEETING ADJOURNED AT 2:19 PM.

I hereby certify these minutes of the December 13, 2023, Federal Advisory Committee on Insurance public meeting are true and correct to the best of my knowledge.



John Doyle, Chair