



# Insurance Innovation

Proposed Model Law:

Insurance Innovation Regulatory Variance or Waiver Act

*American Insurance Association presentation to the  
NAIC Innovation and Technology (EX) Task Force  
Fall National Meeting, December 4, 2017*



## *Insuretech holds great promise*

Innovative new insurance technologies, products and services hold great promise for improving:

- Understanding and mitigation of risk
- Efficiency and cost of insurance transactions
- Speed of claims payments, and
- Overall customer satisfaction

## *Other jurisdictions sense an opportunity*

- U.K. Financial Conduct Authority (FCA) launched its regulatory sandbox in June 2016
  - 24 firms applied and 18 firms accepted into first cohort (1 insurance firm)
    - 75% have successfully completed testing and 90% of those firms are continuing toward a wider market launch
  - 77 firms applied and 24 firms accepted into second cohort (6 insurance firms)
  - FCA currently evaluating applications for third cohort

## *Other jurisdictions sense an opportunity*

- Australian Securities & Investments Commission (ASIC) launched a regulatory sandbox in December, 2016
  - Applies to insurance for home contents and personal property, but pending legislation proposes to expand the eligible types of business
- ASIC also has entered into fintech cooperation and information sharing agreements with regulators in China, Singapore, United Kingdom, Ontario, Hong Kong, Japan, Malaysia and Abu Dhabi

## *Other jurisdictions sense an opportunity*

- Monetary Authority of Singapore (MAS) launched its regulatory sandbox in June 2016
  - >30 firms applied into the first cohort
    - First “graduate” from the MAS sandbox was an insurance broker with a mobile app for customers to manage all of their policies digitally in one place
    - The graduating firm is now a licensed insurance broker

## *Other jurisdictions sense an opportunity*

What do these sandboxes have in common?

Regulators are actively promoting the development of innovative ways to meet evolving customer needs and expectations by

- Providing a supervised process for pilot testing and experimentation with new insurance products, services and technologies
- Relaxing specific legal and regulatory requirements that act as hurdles to innovation



## *AIA Proposal*

The NAIC and the states should actively encourage the pilot testing and implementation of innovative new insurance technologies, products and services by considering legislation to

- Authorize state insurance regulators to grant targeted relief from certain insurance laws, rules or regulations
- Give state regulators broad discretion to attach consumer protections and other conditions to any grant of relief
- Adopt clear protections for trade secrets
- Include measures to maintain a level playing field



## *Insurance Innovation Regulatory Variance or Waiver Act*

Creates the foundation necessary to promote insurance innovation

- Authorizes insurance regulator to grant variances, waivers or no-action letters with respect to the application or enforcement of requirements that would discourage or prohibit the introduction of innovative new insurance technologies, products or services
- Applicant for relief must demonstrate that the purpose of an underlying law or regulation has been or will be achieved by alternative means
- Regulator fully authorized to attach terms and conditions necessary to protect consumers or mitigate risks
- Protects trade secret information and sensitive communications between innovator and regulator



## *Insurance Innovation Regulatory Variance or Waiver Act*

### Maintains level playing field by

- Making certain information public at the time the regulator receives an application for relief and at the time any relief is granted
- Permits regulators to see and test which laws may need modernization and provides for an annual report to the Legislature as a vehicle for making such recommendations
- Prohibiting relief from certain essential regulations governing
  - Solvency and investments, including any law or regulation required for NAIC Accreditation
  - Licensing and certificates of authority
  - Participation in residual markets and guaranty funds
  - Application of taxes and fees
  - Any other law or regulation the regulator deems ineligible for relief

## *Insurance Innovation Regulatory Variance or Waiver Act*

### Examples of relief that could be considered

- **Market withdrawal plans** – Pilot testing a product may involve a pre-planned pause and assessment – should this be considered a market withdrawal?
- **On-demand insurance** – How would coverage reduction/cancellation notice requirements apply?
- **Parametric insurance** – Definitional issues, extent of indemnity, nonrenewal laws, non-traditional claims process
- **Rebating** – If an insurer wants to install or give sensors to policyholders that are yet untested and unproven but might prove effective in preventing losses, could pilot testing be done even if the sensor/installation cost exceeds dollar limits in anti-rebating laws?