Topics for Consideration for Future Work by IAIS Market Conduct Working Group

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Why CEJ Works on Insurance Issues

Essential Financial Security Tool for Individual and Community Economic Development: CEJ Works to Ensure Fair Access and Fair Treatment for These Essential Products and Services, particularly for Low- and Moderate-Income Consumers.

Primary Institution to Promote Loss Prevention, Loss Mitigation and Sustainability: CEJ Works to Ensure Insurance Institutions Maximize Their Role in Efforts to Reduce Loss of Life and Property from Catastrophic Events and to Promote Resilient Households, Businesses and Communities.

Topics for Consideration for Future Work

1. **Options and Best Practices for Consumer Involvement in IAIS and Jurisdiction Regulatory Processes**

2. **Options and Best Practices for Consumer Credit Insurance and Other Reverse-Competitive Markets**

3. **Supervisory and Consumer Protection Challenges from Insurers' Use of Big Data**

Consumer Participation in IAIS Activities

Consumer Involvement in IAIS and Individual Jurisdiction Regulatory Processes Needed to Provide Balance to Industry Access and Resources

- *Formal Options*
    - Consumer Agency
    - Funding for Consumer Advocacy / Representation
    - Consumer Advisory Councils
- *Outreach Options*
    - Consumer Surveys
    - Web/Mobile Device Feedback
    - Focus Groups/Consumer Testing

Best Practices for Consumer Credit Insurance and Other Reverse-Competitive Markets

"Reverse competition" means competition among insurers that regularly takes the form of insurers vying with others for the favor of persons who control, or may control, the placement of the insurance with insurers. Reverse competition tends to increase premiums or prevent the lowering of premiums in order that greater compensation may be paid to persons for such business as a means of obtaining the placement of business. In these situations, the competitive pressure to obtain business by paying higher compensation to the persons overwhelms any downward pressure consumers may exert on the price of insurance, thus causing prices to rise and remain higher than they would otherwise."

Consumer Credit Insurance / Payment Protection Abuses

- UK Payment Protection Insurance (PPI)
- US Consumer Credit Insurance, Force-Placed Insurance, Private Mortgage Insurance, Title Insurance, Debt Cancellation/Debt Suspension
- Australia Consumer Credit Insurance (CCI)
- South Africa Consumer Credit Insurance
- Credit Microinsurance

Problems/Abuses include:

- Very low loss ratios, very high lender compensation
- Churning/asset stripping
- Deceptive Sales
- Post-claims underwriting/sales to ineligible consumers

Consumer Credit Insurance / Payment Protection Possible MCWG Activity:

- **Why some jurisdictions encounter these abuses and others do not – what are the differences?**

- **What are best practices for addressing market failures / preventing consumer abuses / promoting beneficial competition?**

Insurers' Use of Big Data

Insurers' use of Big Data has transformed the way they do marketing, underwriting, pricing and claims settlement. Big Data means:

- Massive databases of information about (millions) of individual consumers
- Associated data mining and predictive analytics applied to those data
- Scoring models produced from these analytics.

The scoring models generated by data mining and predictive analytics are algorithms. Algorithms are lines of computer code that rapidly execute decisions based on rules set by programmers or, in the case of machine learning, generated from statistical correlations in massive datasets. With machine learning, the models change automatically.

Examples of Insurer Big Data Algorithms

Pricing:

- Price Optimization/Demand Models
- Customer Value Scores,
- Accelerated/Automated Underwriting
- Telematics
- Credit Scores,

Claims:

- Fraud Scores,
- Severity Scores/Claims Triage

Personal Consumer Information in Big Data

- Social Media
- Shopping Habits/Purchase History
- Hobbies and Interests
- Demographics/Household Data/Census Data
- Government Records/Property Records
- Web Tracking
- Mainstream Credit Files: Loans, Credit Cards
- Alternative Credit Data: Telecom, Utility, Rent Payment
- Telematics / Wearable Devices

Barocas and Selbst: *Big Data's Disparate Impact*

"In contrast to those traditional forms of data analysis that simply return records or summary statistics in response to a specific query, data mining attempts to locate statistical relationships in a dataset. In particular, it automates the process of discovering useful patterns, revealing regularities upon which subsequent decision-making can rely. The accumulated set of discovered relationships is commonly called a "model," and these models can be employed to automate the process of classifying entities or activities of interest, estimating the value of unobserved variables, or predicting future outcomes."

Consumer Protection / Regulatory Oversight Needed

1. Correlation is Not Causation / Spurious Correlation / Post-Hoc Hypothesis Testing

2. Predictive Models May Reflect and Perpetuate Historic Discrimination

    a. Biased Data

    b. Biased Model / Assumptions

    c. Faulty Model Specification --

Big Data Algorithms Can Reflect and Perpetuate Historical Inequities

Barocas and Selbst: *Big Data's Disparate Impact*

Advocates of algorithmic techniques like data mining argue that they eliminate human biases from the decision-making process. But an algorithm is only as good as the data it works with. Data mining can inherit the prejudices of prior decision-makers or reflect the widespread biases that persist in society at large. Often, the "patterns" it discovers are simply preexisting societal patterns of inequality and exclusion. Unthinking reliance on data mining can deny members of vulnerable groups full participation in society.