INsurance

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Summer 2017

DIGITAL DISTRACTION

KEEPING FOCUS IN A DATA-DRIVEN WORLD

INSIDE

IN THIS ISSUE

...AND MORE

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When Technology Meets Regulation

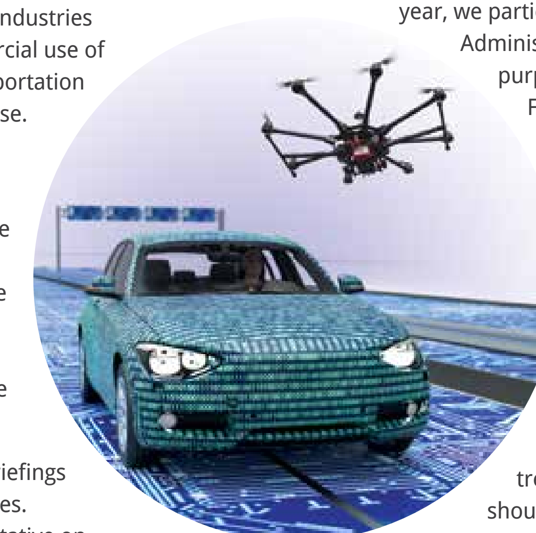
CHUCK CHAMNESS

What are the first thoughts for most people when new technology comes into the market? "What is it exactly?" "Can I use it?" "How do I use it?" "How long will it last?"

How about: "What are the regulations that come along with it and how do they affect me?"

Maybe. But I suppose this question is a low priority for most technology consumers. For NAMIC, though, it's right up near the top, particularly when it concerns technology that could have huge impacts for NAMIC members.

That is why we made sure to grab a seat at the drones regulatory discussion table early in the process. As a representative of one of the top four industries expected to have widespread commercial use of drones – agriculture, retail, and transportation are the other three – it only made sense.



Our work with the Federal Aviation Administration to make sure the concerns and recommendations of the property/casualty insurance industry are heard and considered began more than two years ago, when the FAA and Department of Transportation proposed new rules that would enable responsible commercial drone use.

We've participated in congressional briefings and testified before various committees. NAMIC is the only insurance representative on the National UAS Standardization Testing and Research project with the FAA, NASA, New York state, and the drone industry, which is an effort to provide standardized testing, certification, and performance benchmarking of drones. We're also the sole industry representative on the FAA's Unmanned Aircraft Safety Team. We applauded the administration last summer when its final rule allowed for case-by-case waivers that would enable growth in insurers' commercial use of drones, but we have continued to work with the FAA and other policymakers to educate them and encourage them to amend the regulations that hinder full-potential use.

We recently engaged with the FAA about its definition of public airspace. We believe the FAA has gone too far in defining it as basically anything above the highest blade of grass. For all the details on privacy issues, I suggest you take a look at our white paper, "Unmanned Aircraft: Defining Private Airspace," that was released in March. And we're continuing the discussions regarding the flying-over-people and line-of-sight issues. If the industry is to be able to use drones to their full potential in catastrophe and other claims and underwriting situations, both issues prove problematic. But we're as committed as ever to help the government get the regulations correct, especially as the September 30 FAA reauthorization deadline draws near.

NAMIC is also placing itself at the autonomous vehicle discussion table. How could we not when 40 percent of our market share is in the automobile insurance sector? We want to make sure the federal government gets the laws and regulations regarding this new technology correct. Late last year, we participated in a National Highway Traffic Safety Administration meeting that was hosted with the purpose of obtaining feedback on NHTSA's Federal Automated Vehicles Policy.

We've formed a new Autonomous Vehicle Council - comprised of NAMIC member company representatives - that is working through the fundamental policy issues. By the end of 2017, we anticipate adopting NAMIC public policies that will include recommendations on laws and regulations regarding autonomous vehicles – how these vehicles should be treated on the road and how liability issues should be handled with respect to the inevitable problems that will come along with them if and when they fail.

Who knows what is on the horizon for us when it comes to technology or how we might apply it to insurance operations. Who would have thought that within three-years' time we'd be having major talks about how insurance companies can use drones or that people might not be behind the wheel of a vehicle in less than a decade. But here we are.

Whatever the next technological revolution might be, I know public policy questions won't be far behind. I also know – with your active involvement – NAMIC will be working to help government understand the issue from the industry perspective and get the regulations right so policyholders and our industry can benefit.

Chuck

MARK YOUR CALENDAR

THE HEAT OF SUMMER BRINGS HOT TOPICS AS WELL AS A BRAND NEW SEMINAR TO NAMIC'S EDUCATIONAL EVENT LINEUP. DON'T MISS OUT ON THE SEVERAL OPPORTUNITIES TO EXPAND YOUR KNOWLEDGE AND NETWORK WITH YOUR PEERS.

AG JULY 18-20

AGRICULTURAL RISK INSPECTION SCHOOL

The Madison Concourse Hotel | Madison, Wisconsin

Farms are big businesses with big risks. NAMIC's Agricultural Risk Inspection School helps members understand and mitigate those risks. The Farm Learning Lab trip to the local Crave Brothers Farm adds a hands-on experience that brings classroom learning to life.

> "... I am somewhat new to the farm owners line of insurance and work in product development. I felt like I gained so much information that was really useful for me."
>
> **Krista Bruskotter**
> Westfield Insurance Group

#NAMICagrisk

See the complete event lineup at **www.NAMIC.org/seminars/calendarip.asp** or follow **@NAMICevents**

JULY 24-26

NEW EVENT!

THE FUTURE OF AUTO SUMMIT

The Boar's Head Inn Resort | Charlottesville, Virginia

A brand new event for 2017, the Future of Auto Summit will provide answers to the pressing question of how insurers can keep pace with the rapidly changing auto insurance market. Classroom-style learning will be supplemented by a trip to the Insurance Institute for Highway Safety's Vehicle Research Center's IIHS Experience Learning Lab.

LDW AUGUST 2-3

LEADERSHIP DEVELOPMENT WORKSHOP

Omni Chicago Hotel | Chicago, Illinois

Trust falls might not be an agenda item for the Leadership Development Workshop, but this interactive, hands-on event is full of insights to help attendees build team effectiveness. Any member is welcome to join NAMIC in Chicago for this event, but it's especially designed for mutual company professionals with fewer than 10 years of experience.

To Be Discussed – The Essentials of High-Performance Teams

- **Essential 1 – Foundational Trust and Understanding**
- **Essential 2 – Shared Expectations and Accountability**
- **Essential 3 – Respectful and Candid Dialogue**
- **Essential 4 – High Performance and Results**

#NAMICteamEDU

SEPTEMBER 24-27 2017

122ND ANNUAL CONVENTION

Colorado Convention Center | Denver, Colorado

"The Place Where the Industry Comes Together" returns to the Mile High City for its 122nd installment. The not-so-distant Rocky Mountains will provide a breathtaking backdrop for an exciting three days of top-level education and networking with service providers and fellow NAMIC members.

Make plans to join more than 1,100 senior insurance executives from more than 150 property/casualty insurance companies.

#NAMICAnnual

Stimulate Your Mind, Learn Anytime.
www.NAMIC.org/seminars/calendarwa.asp

Stop and Listen

IN THIS AGE OF SHARING INFORMATION, SOCIAL MEDIA ACCOUNTS CAN TELL A LOT ABOUT POLICYHOLDERS. INSURERS SHOULD, AT THE VERY LEAST, BE 'LISTENING' TO CONVERSATIONS.

JULIE A. VINCENT

Oh, the days before the advent of social media. You know, the ones when we weren't bombarded by friend requests from people we barely knew, we put pictures in frames; we didn't know that tweets came from more than just birds.

Then we got wise. We started to understand the inherent power of social media and even faced the fact that it wasn't just a fad. So we learned about Facebook, Twitter, and LinkedIn, maybe even Instagram. We kinda loved it; we kinda hated it. But eventually we got more comfortable with it. We networked; we marketed ourselves a little bit; and we sent helpful information to our policyholders.

Then we began to realize social media is a conversation. We created a true dialogue. We even learned a thing or two about our policyholders.

And some of us got a real education. We found out we could use social media for fraud detection. All we had to do was look and listen. Policyholders who are less than honest can do a lot of talking.

"Using social media monitoring as a method of fraud detection is truly a simple solution, and we don't have to pay a thing to do it,"

Social Media by the Numbers

79%	of online Americans (Facebook)
32%	of online Americans (Instagram)
31%	of online Americans (Pinterest)
29%	of online Americans (LinkedIn)
24%	of online Americans (Twitter)

Source: Pew Research Center

Ed Forbes, president and CEO of **Dufferin Mutual Insurance Company**, says. "We started seriously using social media to detect fraud after last year's NAMIC annual meeting, where it was talked about."

Forbes' company also uses social media monitoring for underwriting validation. He says the underwriting process now includes a social media check.

"When I ask a broker how well he or she knows a potential policyholder, a quick social media check is a must," he says. "The information you can gather in less than an hour can be extensive."

Michael Bourque, senior vice president of external affairs for workers' compensation provider **The MEMIC Group**, believes the term "monitoring" is a bit strong, but he says the company does sometimes turn to social platforms.

"We don't use a social media monitoring service or anything like that, and we certainly don't troll," he says, "but when we have questions about a claim, or if something just doesn't feel right, our people may go take a look in the social media space.

"Our insurance adjusters will tell you that it's amazing what some people will share," Bourque continues. "Someone with an inability to work due to significant back and knee issues just shouldn't be diving into a swimming pool on Facebook.

"As blatant and as incriminating as some policyholder posts are," he says, "my guess is customers are getting smarter and we will see less of it. In the meantime, checking social media is certainly an inexpensive method. A few keystrokes can tell you what's happening, or at least tell you what questions to ask next."

SFM Insurance Company, another workers' compensation provider, also sparingly uses social media as fraud detection. "Fraud in this area of business for us represents statistically a tiny amount of dollars," **Andy Gebhard**, vice president of communications for SFM, says. "But we do use social media when the situation warrants. Thankfully, the ones who try to defraud the company simply aren't that good at it."

For **The Norfolk & Dedham Group**, social media has become ingrained in everyday processes, according to **Mark Connors**, the special investigations unit supervisor. "We have had some interesting cases having to do with claims," he says. "Things such as staged vehicle accidents where two drivers swear they don't know each other; a few keystrokes and we can see they have been friends on Facebook for years."

Connors says there have also been incidents of "stolen" items showing up in a policyholder's photos after the claim. 'Stolen' items have even been placed for sale on sites such as Craig's List or eBay. He says it's simply amazing the number of people who lose engagement rings ... after a divorce. Every once in a while, Connors says he sees a suspicious house fire ... right after someone loses his or her job.

But he too admits to seeing a decrease in effectiveness of social media sites to catch fraud the last two or three years. "I guess lawyers are doing a better job of educating their clients about potential social media pitfalls," he says.

Despite the fraud-detecting advantages of social media, it's important to not forget the engagement aspect for which it was created. That is where **Forward Mutual Insurance Company** decided to focus its efforts when it began in October 2015.

48% of Americans have interacted with companies/institutions on at least one social media network

41% of Americans say it's important for institutions to have a strong social media presence

59% of Americans who use social media say customer service via social media has made it easier to get questions answered and concerns resolved

50 Million businesses use Facebook

32% of Facebook users regularly engage with brands

"I do not want to say we use social media as a way to protect our company from policyholder fraud," **Lois Wiedenhoeft**, the company's president and CEO, says. "I prefer to say that we use social media as a research tool to assist in performing our due diligence on behalf of the company and the policyholders we serve.

"I believe it is more about customer/consumer education, assisting them with the life-changing events that occur and taking them through the steps," she adds.

Wiedenhoeft is responsible for the company's social media strategy, but she uses the services of who she calls her "social media guru" - a former employee who started her own writing and design business - to compose social media posts and make sure the company stays engaged.

310 Million people actively use Twitter each month

86% of Twitter users say they use it to track news
- 81% for daily news;
- 40% for breaking news

53% of Twitter users never post anything

More than **130,000** advertisers market on Twitter

Twitter users are **3x** more likely than Facebook users to follow brands

42% of users learn about products and services via Twitter

41% of users provide opinions on products and services via Twitter

19% of users seek customer support on Twitter

More than **128 Million** Americans use LinkedIn

1 in 3 professionals have LinkedIn pages

40 Million students and recent college graduates use LinkedIn

49% of key decisions makers have LinkedIn pages

25% of LinkedIn users log in monthly

87% of recruiters use LinkedIn

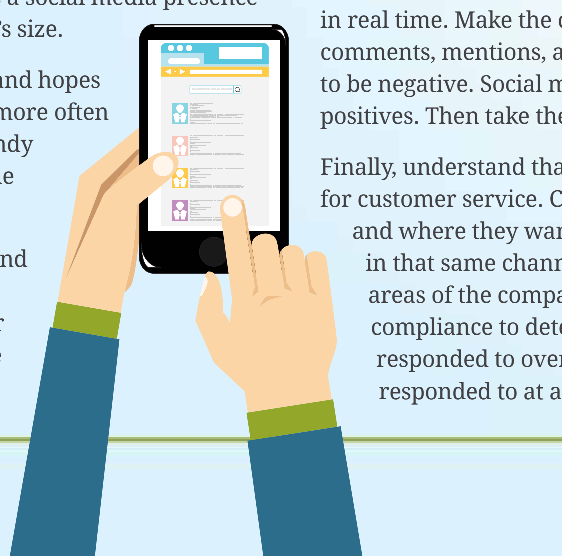
Source: Hootsuite - https://blog.hootsuite.com/social-media-statistics-for-social-media-managers/

Not Social Yet? It's Not Too Late

Has San Lake Mutual Insurance Company is a small company – it generates about $2 million in annual premiums and has an employee count of six. But **Gary Swearingen**, Has San Lake's general manager, believes a social media presence is important, no matter the company's size.

He does all the social media himself and hopes that when time allows, he can use it more often and more strategically. It came in handy this year, he says, to help celebrate the company's 150th anniversary.

The company is active on Facebook and Twitter and is setting "Like Us" goals in hopes that policyholders and other stakeholders will join in its milestone anniversary celebration.



Han San Lake's social media presence is a good reminder that it's okay to start small. Social media takes time, energy, and strategic thought. It's not about throwing a lot of things out there and seeing what sticks.

It's a dialogue, not a "talking to." Stop and listen. Social media conversations are happening in real time. Make the commitment to respond to comments, mentions, and feedback, even if some of it happens to be negative. Social media can help turn negatives into positives. Then take the time to measure and analyze results.

Finally, understand that customers head to social channels for customer service. Customers today expect service when and where they want it and they expect a quick response in that same channel. Be sure to seek buy-in from other areas of the company such as legal, public relations, and compliance to determine whether messages should be responded to over public channels, taken offline, or not responded to at all.

If social media still sounds scary, here are some more helpful tips:

Do your research

Make sure you understand your current and potential customers

Understand how a Facebook page can improve a company's customer support

A company should not litigate or solve a customer complaint on Facebook in front of the whole world. But it is a great place to make that first contact and then take the discussion one-on-one offline to normal customer support channels

Join Twitter to improve customer relations and drive them to Facebook, LinkedIn, and links to helpful articles or company blogs

Start a LinkedIn business page to expand the company's professional network

Use a social media presence to manage the company's reputation

- *Companies should not be bashful about mentioning charitable contributions, employee volunteerism, or awards*
- *Social media is also a place where you can educate and inform policyholders – safety tips and reminders – and further position the company and its agents as experts in the field*

Choose carefully who serves as administrator of company social media sites

Pick someone who is social savvy, energetic, and understands the business

Make sure what is communicated on social media integrates with customer service, sales, brand, and other messaging

Develop messaging that is light on selling and more about relationships

PRODUCT SPOTLIGHT

SMALL COMPANY OPERATIONS AND COMP SURVEY

Benchmark Momentum

Benchmarking has long been known to help businesses with important operational decisions. But the practice only truly works when those being benchmarked are of like size and type of business. Because benchmarking surveys are often geared toward larger companies, NAMIC and its membership worked to create the Small Company Operations and Comp Survey. This survey is specifically designed for farm mutual and property/casualty companies that write less than $30 million in direct written premium. And it is meant to assist NAMIC members in establishing and maintaining operational excellence, board and governance best practices, and financial health.

The survey officially launched in 2015, but it has collected and analyzed data and offered dynamic downloadable reports for data beginning in 2013. Data can be entered at any time, and three years in, we're noticing some trends.

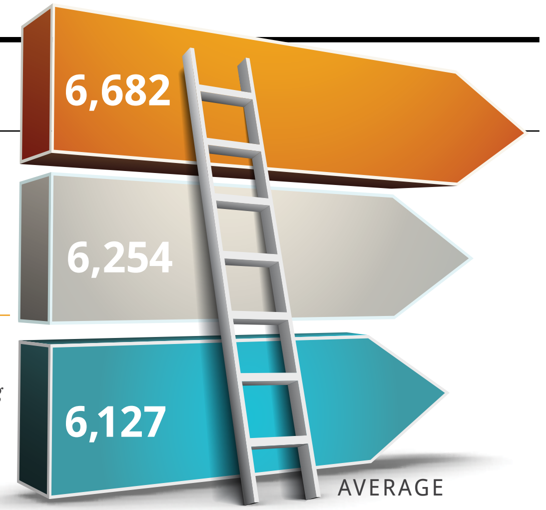
Benefits of Benchmarking

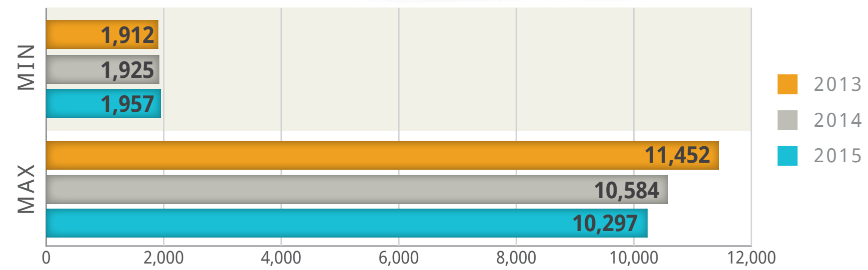
- Provides independent perspective
- Compares companies with like peers
- Identifies areas of opportunity
- Validates assumptions
- Prioritizes improvement opportunities
- Sets performance expectations
- Monitors performance
- Manages change

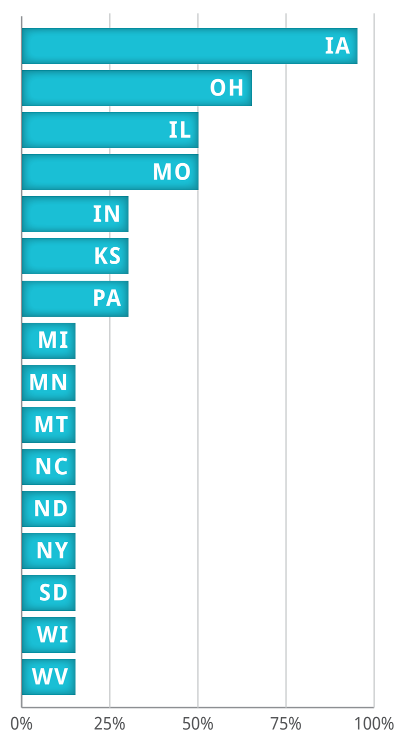
Source: Ward Group

Number of Policies in Force

The total number of active, paid policies a company has written. Companies writing smaller amounts are maintaining consistent numbers and trending higher while companies writing the most, along with the averages, are trending toward writing less.

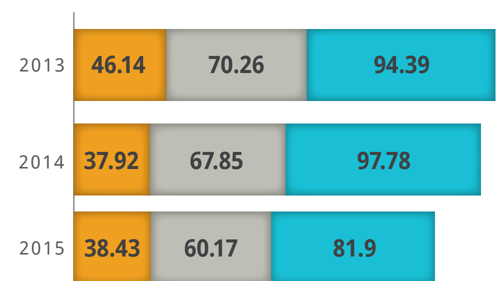






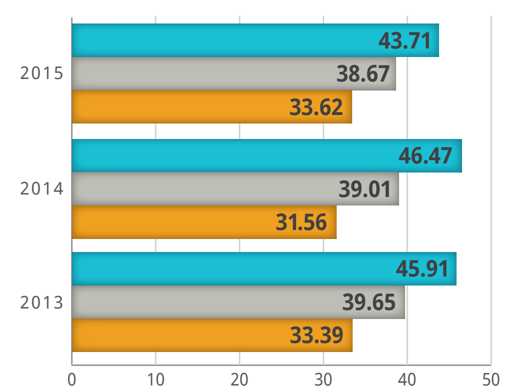
State of Domicile for 2015

Illustrates a high concentration of participating member companies in the central region, especially in Iowa.



Net Premium Written to Surplus Ratio

This ratio is highly indicative of a company's financial strength. Surplus is the amount of assets in excess of liabilities, and the net premium written is the sum of all premiums written minus any ceded through reinsurance. This bar graph shows an average of 66.09 percent across all three years, but it also indicates a decline. There is no data included for ceded premiums.



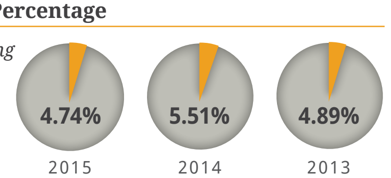
Underwriting Expense Ratios

This is the cost of investigating and writing new policies. As shown on the graph, the cost is in a downward trend for the higher and average, but has increased over the course of three years on the lower (minimum) end.

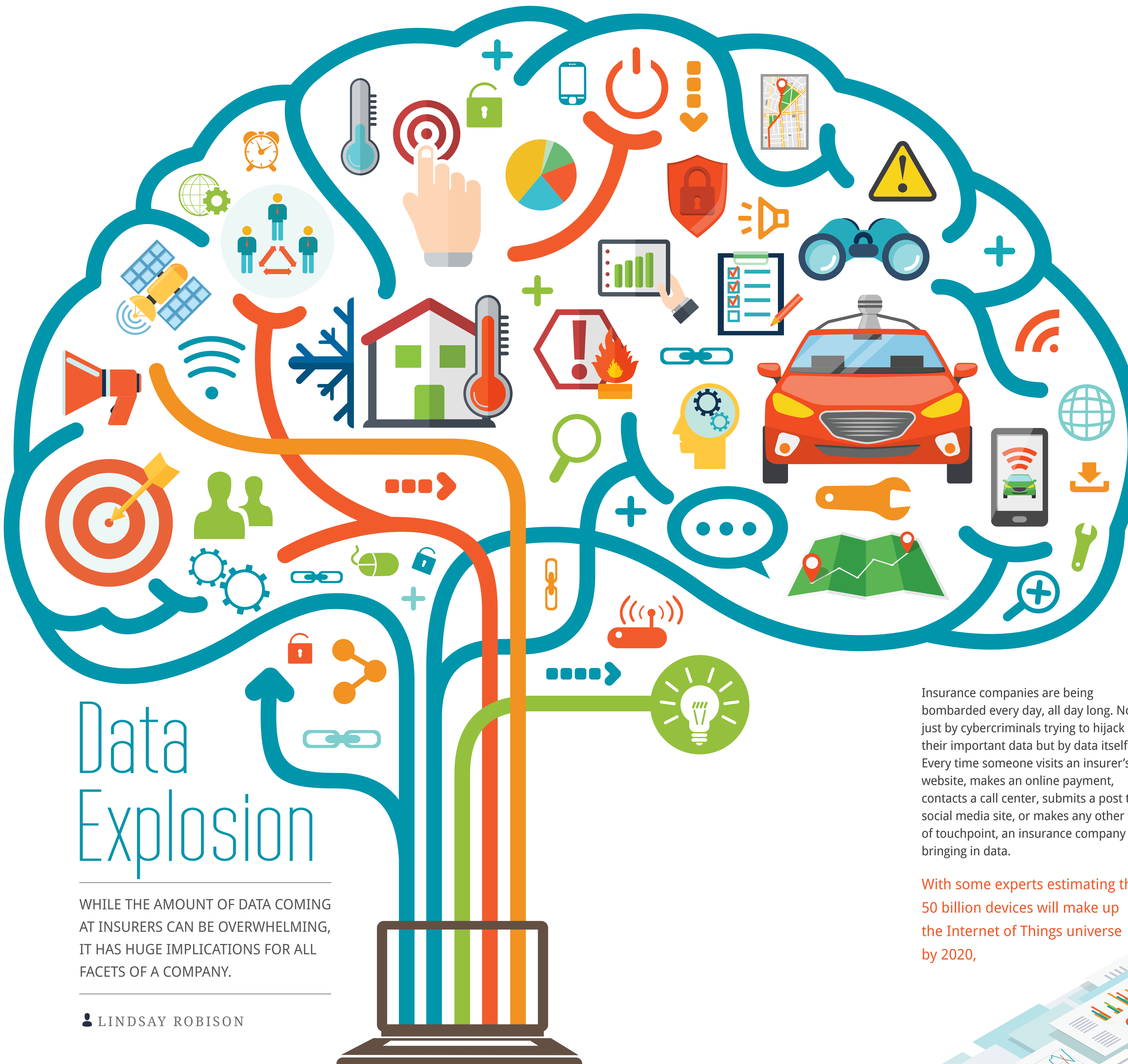
Minimum Average Maximum

Average Loss Adjustment Expense Ratio Percentage

The expense associated with investigating and settling claims. These pie charts represent the difference between premiums paid and the cost of performing due diligence on the part of the insurance company year after year, 2013 through 2015. While there was an increase in 2014, the 2015 percentage has fallen below the 2013 numbers.



Benchmarking Survey Sponsored by GRINNELL RE.



Data Explosion

WHILE THE AMOUNT OF DATA COMING AT INSURERS CAN BE OVERWHELMING, IT HAS HUGE IMPLICATIONS FOR ALL FACETS OF A COMPANY.

LINDSAY ROBISON

Insurance companies are being bombarded every day, all day long. Not just by cybercriminals trying to hijack their important data but by data itself. Every time someone visits an insurer's website, makes an online payment, contacts a call center, submits a post to a social media site, or makes any other type of touchpoint, an insurance company is bringing in data.

With some experts estimating that 50 billion devices will make up the Internet of Things universe by 2020, that number of touchpoints is only going to get bigger. In fact, one Fortune magazine article predicts that by 2020, mobile traffic will surpass 30.6 exabytes per month (an exabyte is 1 quintillion bytes, or 1 with 18 zeros after it).

While insurers won't receive all of that information, it does paint a picture of just how much data insurers could collect, sort through, and analyze. That can, understandably, be a bit overwhelming.

"Just the sheer volume of available information can be difficult to internalize," **Roosevelt Mosley**, principal and consulting actuary for **Pinnacle Actuarial Resources, Inc.**, says. "There is a time aspect to it and a cost aspect to it … to get the information, to try to understand what it means, and then to figure out what to do with it.

"Most insurers, just because of everything else going on in their worlds, haven't yet gone down the path of IoT analysis," he continues.

For the companies taking on that venture, they seem to be gathering the information coming at them and then trying to figure out what it means. But experts say that approach is what could make big data feel unapproachable.

"For big data to be successfully used, it's not about getting a lot of data, it's about getting the right data and the right analysis of that data," **George Hosfield**, senior director of home insurance solutions for **LexisNexis Risk Solutions**, says.

Mosley agrees. "My counsel is to always turn it around. Look at what you're trying to accomplish as a company – your strategic goals, your strategic plans," he says. "Once you've identified key initiatives, start searching for data sources that can help you achieve them."

Underwriting seems to be the most common area in which insurers implement data initiatives. Here, data is used to better understand the risks insurers take on and to better determine the price for those risks. But big data and IoT have potential impacts for each department within a company – where to begin just depends on the priority.

Preventing Losses, Covering Claims

When it comes to loss prevention, IoT devices can keep losses from becoming as severe or even from taking place at all. For example, water sensors could alert homeowners or business owners to a leak on the property. Swift action could prevent it from becoming a full-blown water claim.

Another example is aggregated claims data. Seth Rachlin, executive vice president and property/casualty insurance leader at Capgemini, says one of his workers' compensation clients analyzed its digital claims data to find patterns indicating that earlier intervention by nurses could reduce the amount of money spent on claims. The company changed its processes because of that data.

Data and its analysis can be especially helpful in assisting claims handlers when making key decisions early in their claims processes. Norman Black, insurance industry principal for SAS, says he has seen auto insurers using the increases in data points to expedite total-loss declarations.

"Whereas before [the insurers] might take several weeks to make decisions about total losses," Black says, "they are analyzing the increased data about and from vehicles to determine if they should write off the vehicle.

"That is saving huge sums of money because they are closing claims quickly," he continues. "They are avoiding costs of storage and rental cars. All around, it improves the situation."

"It would be easy to be scared into paralysis when you look out there and see all of this data. But when you boil it down, there will be a relatively small set of data and solutions that will drive growth and value."

George Hosfield, senior director of home insurance solutions, LexisNexis Risk Solutions

Smart Marketing

Big data analysis can be employed to market smarter, according to Pinnacle's Mosley. "Whatever the marketing effort – an email campaign, direct mail, advertisements – if companies can figure out a way to be smarter about the process, they can get a better return for the dollars spent," he says.

"Instead of email blasts or direct mail pieces being sent to everyone, companies can analyze the data they have to target specific [marketing] pieces to the folks with a higher likelihood of responding," he continues. "They can potentially save costs on the front end and achieve significant return on the back end in terms of response rates."

An insurer SAS works with used complaint-call data to analyze patterns and begin a targeted marketing campaign. The company used the information it gathered to categorize its customers into people who would leave no matter what after they make a complaint, people who complain but will stay no matter what, and people who complain and will shop but are also persuadable to stay.

"The company identified the persuadable group as the most important to market to," Black says. "A couple of months before renewal, the company would start a very proactive campaign to target them with offers to keep them.

"They might have been lost before," he continues, "but the company is effectively retaining them because it used data to identify people who would most likely be winnable."

Serving Customers, Building Trust

No matter what kind of data insurers gather and decide to use, the processes can be critical engagement pieces for insurers and their customers. Those engagements can perhaps even increase brand reputation.

The data collected by IoT devices can be analyzed to help insurers better price products, but they can also enhance customer service by offering services and discounts to the insureds who use the devices that accumulate the data.

"Companies need to have a plan to incentivize their customer bases," **Chastin Reynolds**, marketing director for **BriteCore**, advises. "Email campaigns, links to purchase devices, chances to win devices, things like that do a few things.

"They build awareness at the carrier level and at the policyholder level. That awareness helps protect homes, auto, farms," Reynolds continues. "Then that helps build relationships, that trust factor, with companies, policyholders, and agents.

Dawn Mortimer, assistant vice president of IoT and telematics claims product Edevelopment for **Verisk Analytics**, voices similar sentiments. "[Insurance consumers] are all starved for time. They continue to be busy," she says. "They aren't necessarily thinking about protecting their homes," she says. "But insurers can be good at telling them how to do that, and now they can do it in a more proactive way. There are lots of ways for insurers to change the conversation."

Partnerships Galore

For an industry that doesn't always have the best of reputations among consumers, partnering with trusted data companies can increase trust factors for insurers as well.

Partnerships come in different forms. One is with IoT and data companies that can help provide information insurers seek. Another is with organizations that can help insurers make sense of the data they gather. Whatever form partnerships come in, they are critical to an IoT/big data strategy, **Joe Wodark**, director of IoT product development for Verisk, says.

"I think there has been a little bit of a learning curve for insurers – stepping outside of the normal business model and engaging companies to work together to

find the IoT value," Wodark says, "but the prerequisites to capturing information and its opportunities are partnerships."

Riccardo Baron, senior quant analyst and casualty modeler for **Swiss Re**, agrees and mentions the overlap and interconnectedness that big data and IoT bring. He uses semi-autonomous and autonomous vehicles as examples. "We are not going to be able to separate industries in the same way when we start connecting them through devices and data," he says.

"Insurers are going to have huge returns for the data [the vehicles collect], but they are also going to change some characteristics of insurance," Baron continues. "There will be a move toward insuring the car rather than the driver."

Mortimer advises that insurers do their homework on any organizations they consider partnering with, though.

Prior to joining Verisk, she worked for an insurer whose IoT partner company got bought out. Mortimer says devices the company she worked for had planned to offer its customers became obsolete "paperweights."

"The environment changes so fast, but it is important to keep up with it and find partners that will be around for the long haul," she says.

The Uniformity Problem

While the sheer magnitude of information can be intimidating, the fact that none of it is the same can be almost paralyzing. Think about it – for vehicles, each manufacturer and each type of add-on device has its own way of collecting and disseminating data. The same thing goes for smart homes. With no uniformity of information, the challenge of making sense of it all becomes greater.

"The magnitude of input and data sources, the number of possible combinations, it's all very exciting. It's positive stuff, but it is very complex," **Katie DeGraaf**, senior consultant specializing in customized usage-based insurance for **Willis Towers Watson**, says. "That's where aggregators are stepping in to make sense of the data, to make it adjustable and useful for carriers."

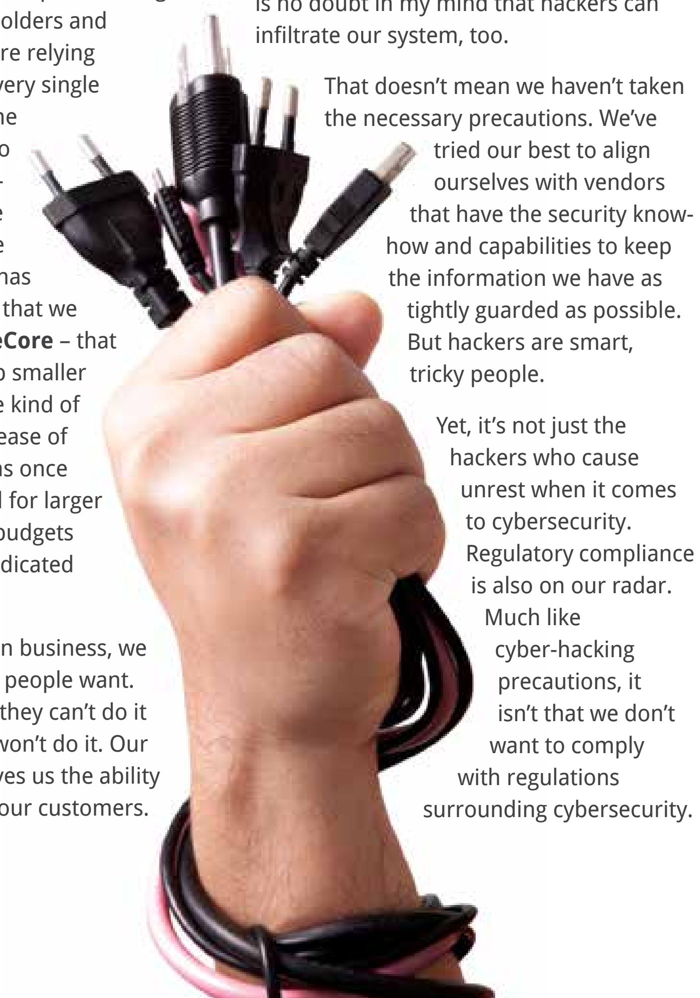
ART MEADOWS is president and CEO of Panhandle Farmers Mutual Insurance Company, which is a member of NAMIC's Farm Mutual Conference.

Keeping Up

ART MEADOWS

Technology is an increasingly important aspect of our business. I'd like to consider **Panhandle Farmers Mutual Insurance Company** to be technologically advanced for a company of our size, but it is a challenge … on many fronts.

We're competing with companies – large and small – for policyholders and agents who we know are relying more on technology every single day. To get and keep the best people, we have to offer them technology-based services that are at least on par with the "big guys." Panhandle has been very fortunate in that we found a vendor – **BriteCore** – that works diligently to help smaller companies tap into the kind of system that allows an ease of doing business that was once thought to be reserved for larger companies with large budgets and a full-time staff dedicated to technology.



But if we want to stay in business, we need to adjust to what people want. For younger people, if they can't do it online, they probably won't do it. Our vendor relationship gives us the ability to offer that option to our customers.

While I consider what we've done technologically to be successful, stepping up to the challenge has fostered a whole new issue we didn't necessarily anticipate. That issue is cybersecurity. It's a troublesome venture for any business – or individual for that matter – but it's perhaps more so for smaller companies like Panhandle. We hear all the time about large corporations' networks getting hacked. You know they must have the best technology and cybersecurity plans in place. If they're getting hacked, there is no doubt in my mind that hackers can infiltrate our system, too.

That doesn't mean we haven't taken the necessary precautions. We've tried our best to align ourselves with vendors that have the security know-how and capabilities to keep the information we have as tightly guarded as possible. But hackers are smart, tricky people.

Yet, it's not just the hackers who cause unrest when it comes to cybersecurity. Regulatory compliance is also on our radar. Much like cyber-hacking precautions, it isn't that we don't want to comply with regulations surrounding cybersecurity.

But when new regulations are added to the current requirements and our day-to-day work, it can be burdensome to our small staff. If small companies aren't exempted from the proposed cybersecurity regulations, it's going to be a difficult road for us.

We've been fortunate that we have a good relationship with the West Virginia insurance department. The office has been very understanding about other regulations that prove disadvantageous for small companies. We're hopeful that will continue, but a new insurance commissioner has been recently appointed. He's an industry person, but you never know what will happen when a new commissioner comes along.

When it comes to technology and the challenges and opportunities it brings, the only thing I am certain of is that it is everchanging. As soon as I feel as if we're somewhat set in our technology efforts, something new surfaces that I believe would work well for us. It's anybody's guess as to what is just over the horizon.

But whatever it is, I know we're going to work to keep up with it.

BOB ZAK is president and CEO of Merchants Mutual Insurance Company, which is a member of NAMIC's Property Casualty Conference.

Technological Investment

BOB ZAK

Merchants Mutual Insurance Company has an AS400-based core policy, billing, and claims system with web-based agent and policyholder portals supported by a data warehouse and analytics platform. On the positive side, our technology is function rich, dependable, secure, and highly regarded by our customers. On the downside, it comes with a steep learning curve for new employees and is somewhat cumbersome to modify. Industry benchmarks show that the cost of maintaining it is just above median for companies of our size – a direct written premium of $270 million.

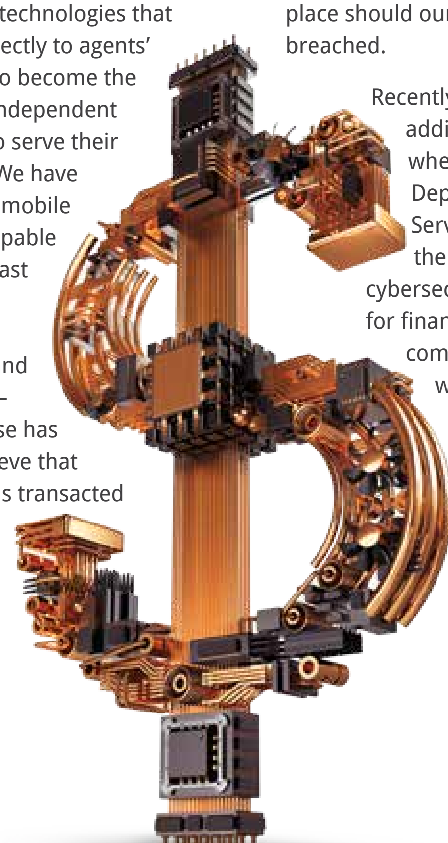
Our biggest challenge is to determine where and when to make the next significant investment in technology that is more than just an enhancement to existing technology. We have to assess whether we'll get a return on that investment or if it is merely to keep pace with increasing table stakes.

Our near-term focus is to improve and extend the life of our existing systems while being opportunistic in evaluating and deploying new technology in a bolt-on fashion. For example, our focus over the past year has been replacing our print and forms technology to handle our thousands of forms and documents better. We'll evaluate a similar approach with our policy-rating technology.

We're also executing a multi-year program to build a centralized data warehouse to support our analytics and predictive modeling efforts. We have a four-person analytics and predictive modeling team – in addition to a cadre of actuaries and product managers – that has introduced advanced statistical models into our rating plans and myriad claims and underwriting processes. The models have eliminated processes that did not provide value and concentrated resources where the payback is most significant. For example, we eliminated home inspections where models indicated low or no payback, which has reduced aggravation for our customers.

We are heavy consumers of third-party data that, when added to our internal data, is enhancing the efficacy of our modeling and analytics efforts. Enhanced access to and improvement in the ease of manipulating large amounts of information has leveled the playing field for carriers our size.

Over the past decade, we have invested in technologies that make it easier for our independent agents to place and service business with Merchants. From an easy-to-use web-based quoting and issuing platform to technologies that link our systems directly to agents' systems, we strive to become the company that our independent agents trust most to serve their valued customers. We have implemented basic mobile apps and mobile-capable websites over the past five years – claims reporting, roadside assistance, billing, and insurance ID cards – though customer use has been modest. I believe that because insurance is transacted infrequently for the most part, mobile apps are not as important as they may be in banking, where customers may use their apps several times a week.



We are keeping our fingers on the pulse of smart-home and smart-business technologies; we haven't implemented any specific coverages or premium discounts that reflect the presence of such devices. Commercial automobile is our largest and most profitable product; we are very interested in vehicle- and driver-tracking devices. Given that our average commercial automobile policy has one or two vehicles, it may be a while before the prevalence of such devices affects our book of business.

We're also rolling out comprehensive cyber coverage for our insureds. And we take a proactive approach to prevent cyberattacks on our own systems and data with standard hardware, software, and password protections, web and email filters, automated encryption technologies, and penetration testing to review our controls and processes. Our colleagues receive regular training in safe computing, and we have plans in place should our systems and data be breached.

Recently, we received additional guidance when the New York Department of Financial Services promulgated the first-in-the-nation cybersecurity requirements for financial services companies. Fortunately, we already comply with almost all of the requirements. Keeping our systems safe and our data protected are of great importance.

RANDY SHAW is president and CEO of Everett Cash Mutual Insurance Company, which is part of NAMIC's Property Casualty Conference.

To Chase Perfection

RANDY SHAW

First things first, I am fond of saying that insurance companies are actually information companies. To properly accept, avoid, or mitigate risk – which is what we all do – we need information. To get the proper information, we need technology.

Twenty-three years ago, when I joined Everett Cash Mutual, I was young and new to the industry. The then-president gave me an assignment: find a replacement for our expiring software. As an accountant who dabbled with computers, I felt adequate to evaluate the available solutions. I quickly became convinced that cost-effective technology solutions for smaller insurance companies didn't exist.

Now, we all know it's impossible to have perfection in anything. But as the legendary football coach Vince Lombardi once said, "Perfection is not attainable, but if we chase perfection, we can catch excellence." Thus, our technology solution – 1st Choice Connect – with a primary focus of supporting the technology needs of insurance carriers was born.

During the decades since we decided to launch 1st Choice Connect, it has become the nerve center for our organization as well as others. This is an empowering yet daunting aspect of our business.

It's empowering from the perspective that it allows us to employ our human capital in the most effective manner – they're making decisions, not processing data. Now that the system links us with agents, adjusters, and other business partners, it has evolved from a processing system into a risk management solution. It has also allowed us – and other licensed users – to be extremely efficient with expense management. If technology is done well, it can automate processes that previously took time from personnel, thereby allowing more-effective use of limited resources.

It's daunting from the standpoint that because we have licensed the technology platform to allow other insurance carriers to use it, their nerve centers are now our responsibilities as well. It's bad enough knowing that you can wipe out your information and shut down your own operations with one mistake. It is a whole different paradigm knowing that what you do can affect another enterprise. But we take that responsibility very seriously.

In light of the ever-increasing attention being placed on information technology solutions, we consistently focus on security and preservation of information. Data breaches are becoming so common that if you're not hacked, you're in the minority. Fortunately, we have managed to stay ahead of the curve, but vigilance is never ending.

Since we launched 1st Choice Connect, we've grown organically, through word of mouth only. But we have now reached the position that scale is becoming important for this platform.

There is tremendous research and development needed to stay relevant and drive more growth, but that takes personnel. Our challenge is to find a way to grow our client base while continuing to maintain the high level of service that our existing clients and our own insurance operations have come to expect.

It truly is our biggest challenge and opportunity.

Clearing the Inundated Inbox

FEELING OVERWHELMED WITH INFORMATION?
YOUR EMAIL IS A GOOD PLACE TO START TAKING BACK CONTROL.

TINA OREM

The average American consumes 34 gigabytes and 100,000 words of information each day, according to researchers at the University of California at San Diego. That's a ton of material – enough to fill a 500-gigabyte laptop's hard drive in just about two weeks.

Executives in the mutual insurance industry, who are besieged with information about everything from financial performance and regulatory news to tech issues and customer feedback understand exactly how daunting that can be to manage on a daily basis.

"Oftentimes, when people are overwhelmed, they feel like they're a victim," Sue Becker, a time management and productivity coach at Spark Productivity, says "You can't change everything, certainly, but there are things you can do to take control and be more in charge of your own destiny in that regard."

One of the biggest reasons people feel overwhelmed is that they have a poor strategy for information management, according to organizational expert Randall Dean.

The biggest culprit? Email.

You can declutter, defrazzle, and demystify all the information hurtling toward your inbox every day by picking up a few key habits.

Set Timers

Checking your email every five minutes means you're looking at your inbox 96 times in an eight-hour day.

"That's you interrupting yourself," Becker says. "That's not even all the other interruptions coming at you from external sources."

Instead, set specific times to check email. Or at least start small by scaling back to checking once every 15 minutes. Turn off your email notifications – they're too distracting, Becker says.

Sort Everything First

"The average email user is looking at each and every email they receive three to seven times," Dean says. "Basically, what they're doing is reading messages over and over, doing nothing with them."

Dean suggests capitalizing on Outlook or Gmail tools that highlight your most important messages. Use the programs' automatic filtering tools to funnel messages such as regulatory updates, newsletters, or other ongoing matters you need to watch into special folders away from your main inbox. You'll be a more-informed person because you'll have all the related items filed in one place, making them faster to access and review as necessary.

Don't Just Check Email — *Process It*

"Read the email and decide right then and there what you need to do with it," Becker says. "Make a decision whether you're going to delete it, you're going to discard it, you're going to delegate it, you're going to do something with it, or you're going to defer it to somebody or to another time. Make the decision and then get it out of your inbox." The only time an email should be in your inbox is because it's new or it's something you have marked for action, she says.

Stop Misusing Email

Email is absolutely the wrong tool for sending messages that are critical or urgent, Dean says.

"When you do that, you're setting up a system where people feel like they have to look at every single item coming in to see if just one of those items might be critically urgent or important right now," he explains.

Email isn't perfect in terms of guaranteed delivery. It also creates a cultural problem because the people using email as an instant messenger eventually get upset with the people who check email every hour or two, Dean notes.

"This is my philosophy, and I will take it with me to the grave," Dean says. "If you send a red-hot, urgent email to another party and that other party is not there to receive it, you own it as the sender. You own the failure that occurs because it didn't get acted on in time.

"I think if we can get the senders of the emails to realize what their responsibilities are, a whole bunch of these problems go away," he continues. "I see way too many people saying, 'Hey, I sent the email, I'm absolved of responsibility here. I have no responsibility because I hit send.'"

Picking up the phone, visiting a person's desk, even sending text messages are much better ways to relay urgent information, Dean says.

"The beauty of it is that when people are sending critical or urgent communications, they're verifying it with a two-way communication tool. Email's a one-way communication tool until somebody hits reply," he warns.

Avoid Excuses

Having a high-level position or being part of a certain industry don't mean these rules don't apply to you. They work regardless of job function or title, says Tom Meier, a human resources consultant at Equis Consulting.

"When we go into a new organization or certainly a new industry, they always say, 'Have you ever worked with academia before? Well, we're different,' 'Have you ever worked in retail before? We're different.' What you find out is they're really not," he says.

In fact, executives may have less of an excuse for being swamped with information, Becker adds.

"Typically, people in the higher levels have the benefit of having people to delegate to. Although they carry a lot of responsibility, they often also have access to a lot more resources," she says.

Don't Let Your Bad Email Habits Perpetuate a Toxic Culture

Many mutual insurance executives and other leaders are effectively addicted to their email inboxes because of the bad behavior by email users around them, Dean says. Much of the time, the problem is that people inadvertently turn email into a contest over who can respond the fastest.

Becker agrees and says there's a difference between being fast and being effective.

"I think people are better off being known as intentional responders rather than fast responders," she says. "If they're going to just be responsive all day, that means they're living in email boxes and they're not getting anything else done," she says. "If that's somebody's reality – that the expectation is that they respond quickly – it might be time for a conversation with the people who are holding them to those expectations and to let them know the cost of that."

Three More Email-Demystifying Tips

1. **Fatten up your scheduling entries.** If you have a lot of meetings booked on your calendar, Tom Meier, a human resources consultant with Equis Consulting, says to put the email address and phone number of the person you're meeting with in the calendar entry. If the issue you'll be discussing is floating around in an email somewhere, cut and paste the body of the email into the notes section of the calendar entry. When the appointment rolls around, there will be less to dig up, he says.
2. **Remind yourself to read things later.** If your email program is funneling certain kinds of messages into a folder to read later, make a note on your calendar to actually go in and read what's in the folder, organizational expert Randall Dean recommends. "Then you'll deal with it in some sort of a prioritized manner," he says.
3. **Use the task function in your calendar.** You can create to-do lists that you can filter by day, priority, project, customer, or client, Dean says. It helps shift the focus from "What's the next thing coming?" to "What should I work on that creates the most value for me and my organization?"

These days, cyber affects everything.

If something is somehow connected to technology, it's part of the cyber world. Cyber offers so many opportunities, but it does not come without risk.

"Cyber refers to the use of computer technology to support business operations. Cyber is a legitimate business activity that bad things can happen to if people aren't careful," says Nick Economidis, an errors and omissions underwriter specializing in technology risk issues for the Beazley Group.

Bad things do happen:

Cybercrimes cost the world
$3 trillion in 2015
– CSOonline.com

More than
4,000 ransomware attacks occur every day
– Federal Bureau of Investigation

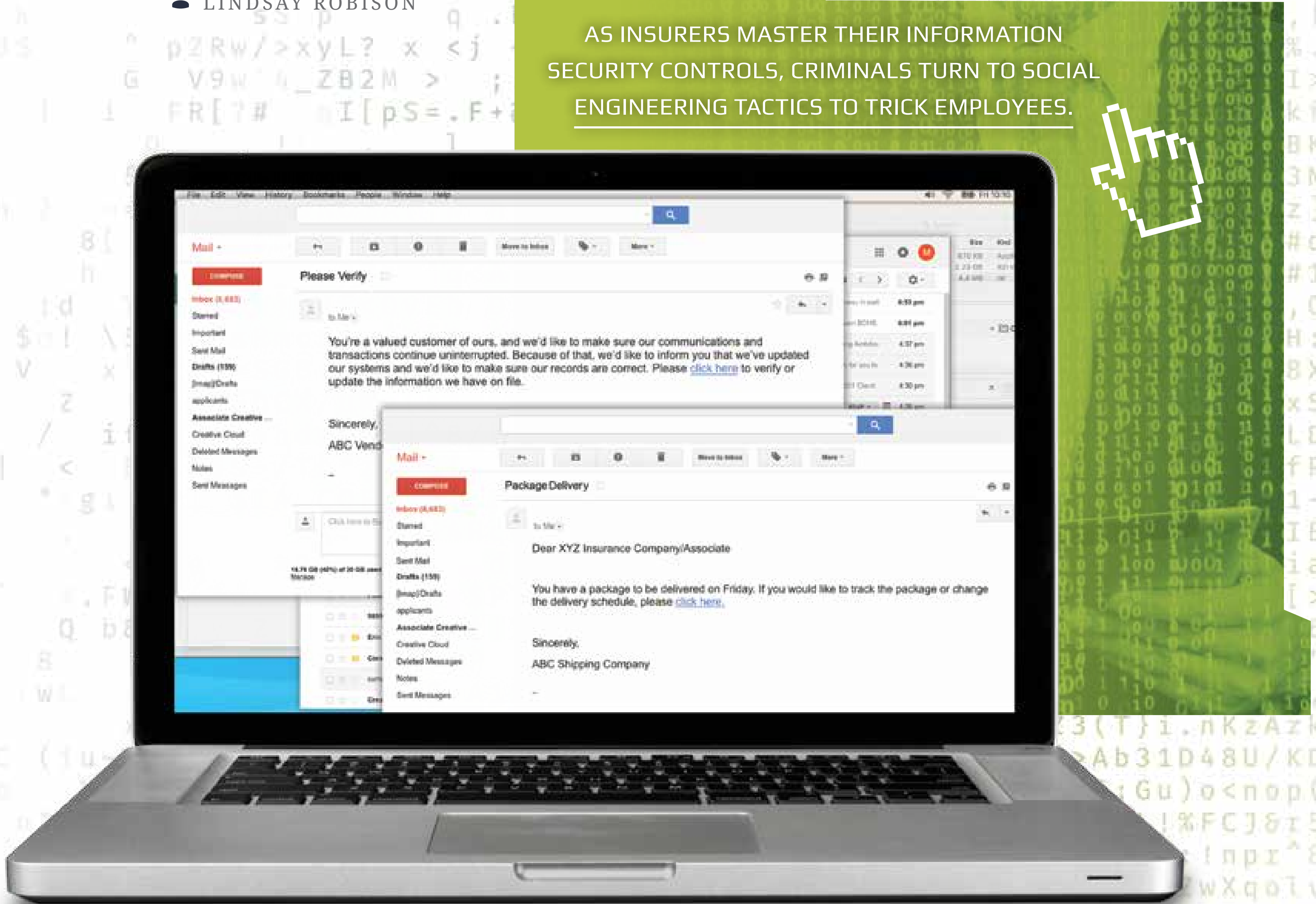
Approximately 60 percent
of the small businesses hit by a cyberattack are unable to sustain their businesses six months after the attack
– United States National Cybersecurity Alliance

The list goes on, and as our world becomes ever-more connected and cyber dependent, the list will grow. Awareness of the current issues – as evolving as they might be – and the ways insurers react to them are keys to keeping important information as secure as possible.

Embedded Threats

LINDSAY ROBISON

AS INSURERS MASTER THEIR INFORMATION SECURITY CONTROLS, CRIMINALS TURN TO SOCIAL ENGINEERING TACTICS TO TRICK EMPLOYEES.



If you received emails similar to the ones above, would you click the hyperlink?

Even if you wouldn't, there is a high likelihood that one or more of your colleagues would. **Gamelah Palagonia**, a senior vice president and cyber risk specialist for **Willis Towers Watson**, says people suffer from something she calls "clickitis."

"People see links in emails and they want to click on them," she says. "They just can't help themselves."

In many instances, links embedded in your incoming emails are legitimate. Unfortunately, on an increasing basis, they are ploys – albeit cleverly designed to look real. Those who click the links fall victim to one of cybersecurity's newest problems: social engineering.

Social engineering in the information security world is a form of deception through which criminals persuade individuals to reveal confidential information that will then be used fraudulently.

Why social engineering? Because insurance companies – and businesses in general – have begun to master their antivirus and firewall security controls. But criminals are smart, and they know companies' biggest assets – their employees – are also their biggest liabilities.

"Sometimes it's like shooting fish in a barrel," says **Eduard Goodman**, global chief privacy officer for **CyberScout**, formerly IDT911. If a cybercriminal just happens to hit someone with a legitimate-enough-looking social engineering email that has something to do with his or her job, Goodman says it's more likely than not that a link will be clicked and a cyberattack will ensue.

"It's not that people are visiting websites they shouldn't be," he says. "We all know those are good ways to get viruses. It's something much more innocuous, such as shipping delay information, and someone clicks a bogus link."

Therefore, insurers need to heighten their focus on employee cyber education. Because as Palagonia says, "If you don't change the behavior creating the risk, it doesn't matter what defenses you put up."

Employee education needs to be frequent and interactive. Much of the current employee training, according to Palagonia, homes in on the compliance-based checkbox training for new hires with refreshers every six months to a year. "But I have seen people going through these trainings," she says. "People do other work; no one takes it seriously.

"But if you do something over and over and make it engaging, people will talk about it and remember it," she says. "I think that is the way to go."

Mutual Assurance Society of Virginia recently added interactive social engineering training to its security repertoire. **Jeff Wrobel**, the company's president and CEO, says Mutual Assurance's security vendor gets creative, registering internet domains and sending the insurer's employees legitimate-looking fake emails with clickable links.

"It might be an offer for a free chicken sandwich. It might be an email telling employees a car in the parking lot is being towed with a link to see whose it is," Wrobel says. "If an employee clicks the link, they have to watch a three-minute training video about the risks of social engineering. It can be annoying, but it should be annoying."

When the **Westfield Group** trains its employees, it takes a holistic approach and lets employees know they are all responsible for the company's cybersecurity efforts. "Information security isn't something the IS team does," **Kevin Baker**, the organization's information security leader, says. "It is something the IS team enables.

"When information security is viewed as another aspect of product quality, it is easier to understand how we are all responsible for it, even though we may not have specific security training," he continues. "If security awareness is strong across the organization, people will seek answers to their concerns and the security team can be engaged.

"I tell people, 'We are not *the* security team,'" Baker says, "we are *your* security team.'"

Westfield also tries to make the training personal. Baker says when he speaks with employees at all of the company's offices, he'll hold up his phone and ask how many people have gotten calls or emails from the Internal Revenue Service or their credit card companies, threatening lawsuits because of missed payments.

When people fall victim to that kind of scam, they stand to lose their money and their identities. "When the attack is on a corporate level and you lose corporate reputation by fumbling that ball, it can be hard to recover," Baker says. "Once you've lost your reputation, how do you get it back?

"If we can say to employees, 'This is how we produce quality and stay successful,' people will want to know more and want to be more secure," he continues. "People don't have to have computer science degrees to enable security for their companies."

Just don't click on email links.

THE UNLIKELY VULNERABILITY

About a decade ago, the **Mutual Assurance Society of Virginia** decided cybersecurity needed to be a top priority for all levels of the company, from the newest employee to the board of directors. With that prioritization in mind, vulnerability assessments became frequent practices.

When Mutual Assurance's vulnerability assessment vendor runs these exercises, he tries to compromise the insurer's system and then provides a list of weaknesses and threats. Wireless connections, unnecessary internet searches, malicious emails, and other outside attacks have been on the list … and expected to some degree.

"But here's how crazy it gets," **Jeff Wrobel**, the company's president and CEO, says. "Our vulnerability vendor was able to compromise one of our copiers.

"From there, he was able to compromise a computer," Wrobel continues. "From the PC, he was able to get the network administrator password. Who secures their copiers?"

Mutual Assurance does now.

Phishing for Ransom

THE EXPANSIVE NATURE OF THE CURRENT RANSOMWARE EPIDEMIC MEANS COMPANIES OF ALL SIZES ARE AT RISK.

LINDSAY ROBISON

Ways to Secure Data From Ransomware Attacks

- Back up data daily
- Configure firewall systems
- Test systems frequently
- Patch operating systems, software, and firmware consistently
- Implement employee training

Source: Willis Towers Watson

The phone rings in the middle of the night. On the other end is a raspy auto-tuned voice telling you that unless you pay X amount of dollars, you won't see a loved one again. It's a scary thought, and it sounds like the makings of a heart-pounding film, most likely starring Liam Neeson. While there might not be the goose-bump-inducing voice on the other side of a ransomware attack on a mutual insurance company, an attack of this sort isn't any less scary for an insurer falling victim to it.

Ransomware is malware that encrypts the data on the device or network it enters, locking out the rightful owner of that device or network until a ransom is paid and the attacker either unlocks it or sends the victim the key to do it.

Unfortunately, all too many companies have become the prey of ransomware cybercriminals. A 2016 survey by security firm Malwarebytes showed that almost 40 percent of businesses have experienced a ransomware attack. And that number is on the rise. **Willis Towers Watson** reported that in the first quarter of 2016 alone, businesses lost $209 million to ransomware attacks. Losses totaled $24 million for all of 2015. It is now on track to be a $1 billion crime.

"This has become an epidemic," says **Eduard Goodman**, global chief privacy officer for **CyberScout**.

Gamelah Palagonia, a senior vice president and cyber risk specialist for Willis Towers Watson, agrees and says ransomware has leveled the cyberattack playing field.

That means it's not just a certain-business-sector or certain-size-company kind of worry. Goodman says hackers used to take a sharp-shooter approach, targeting companies they knew had massive amounts of money or information.

"At one point, small insurance companies might have had a valid argument saying, 'Who's going to target us? They go after the big guys,'" Goodman says. "But now for many ransomware attackers, their pursuits are phishing in nature and often aided by bots that allow them to maximize their reach. Instead of targeting certain business sectors or particular organizations, they send out ransomware in massive proportions to see who will take the bait."

Hackers see where they can get in, says **Jeremy Barnett**, senior vice president of marketing for **NAS Insurance Services**. "It's a small bank, a small insurance company, great. [Hackers] will plant ransomware and hold information for three or four thousand dollars. It's a small enough amount that it won't hit the FBI radar. But when they do this twenty times, they're making a good living.

"We're seeing this all the time," he continues. "It's sad to see so many companies being exploited this way."

What might be even worse ... the National Cyber Security Alliance has estimated that 60 percent of small businesses hit by a cyberattack will end up shuttering their doors.

NOT NECESSARILY EQUAL - RANSOMWARE V. DATA BREACH

Ransomware is undoubtedly a cyberattack, but it doesn't mean it's also a data breach.

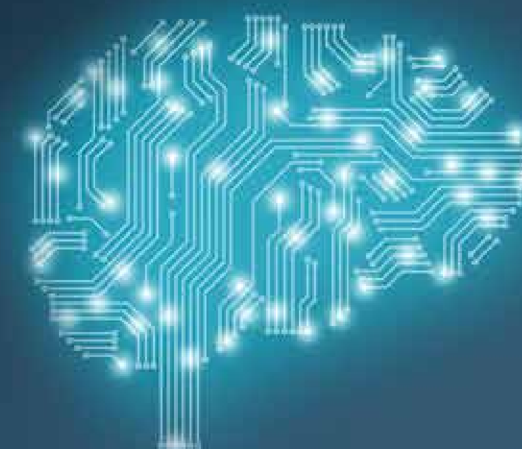
For most ransomware incidents, the purpose isn't to steal data. The goal is to encrypt as much information as possible in hopes that enough victims will pay the ransom to equal a good payday, according to **Eduard Goodman**, **CyberScout's** global chief privacy officer.

"What we have found is that a very small percentage of these infections will copy information and move it out the back door prior to encryption," he says.

Even so, organizations that have had their information encrypted must undergo some sort of analysis to determine if any data left the system. That means the first order of business is to get information back and running again, with an investigation to find if data left the system following close behind.

If data left the system, Goodman says it's off to the data breach reporting requirements.

Cyber-Savvy Oversight



THE INCREASED EMPHASIS ON CYBERSECURITY MEANS DIRECTORS NEED TO BE ASKING TOUGH QUESTIONS.

LINDSAY ROBISON

Company management and employees aren't the only people with cybersecurity responsibilities. The board of directors has its own cyber-related duties, which include making sure management is taking appropriate security measures.

Because cyber issues penetrate each area of an insurance company's business, the National Association of Corporate Directors recommends cybersecurity be woven into every boardroom discussion and given visibility at the full-board level.

"We want to help directors make sure cyber doesn't get isolated into an information technology silo," Robyn Bew, director of research NACD, says. "It's an issue that goes far beyond IT, and [board members] need to integrate it into all of the conversations they have with management – strategy, risk management, future plans."

According to **Adam Thomas**, a principal for **Deloitte's** cyber risk services practice, there are several important questions for every insurance company board to ask: **1)** Who in management is responsible and accountable for cybersecurity? **2)** What assets are we concerned about being attacked? **3)** What are we doing to secure those assets? **4)** How are we making sure we're vigilant as the threat changes? **5)** How are we making sure we're resilient? **6)** If someone gets into one of the assets, how do we make sure we minimize the financial, reputational, and brand damage?

Thomas says, "What board members are really looking for, what they need to ask is 'Do we understand the business context around the security problem we have and are we mobilizing the resources we have to be secure, vigilant, and resilient against those specific problems.'"

TIPS FOR DIRECTOR OVERSIGHT

- Recognize that cyber criminals are constantly changing their methods.
- Seek out and continue with cybersecurity education.
- Scrutinize whether management really knows where key data assets are located.
- Ensure that management is held accountable for effective cyber risk management.
- Make sure leadership takes advantage of information-sharing initiatives.
- Ask technology leadership to avoid jargon and communicate in easy-to-understand terms.
- Beware of the consequences of your oversight approach.

Source: National Association of Corporate Directors

Compliance Goals

WITH THE INCREASING EMPHASIS PLACED ON CYBERSECURITY REGULATIONS, MANY IN THE INDUSTRY ARE ASKING FOR CONSISTENCY AND FOR CONSIDERATION OF THE COMPLICATIONS COMPLIANCE COULD CAUSE.

LINDSAY ROBISON

As of this year, 47 states, Washington, D.C., Guam, Puerto Rico, and the U.S. Virgin Islands have enacted legislation that requires governmental and private entities to notify individuals of data security breaches. In 2015 – after eight years of discussion – the federal government passed the Cybersecurity Information Sharing Act. The National Association of Insurance Commissioners is working on its own cybersecurity model law. And in March, New York effected the first-in-the-nation cybersecurity regulation to protect the state's financial services industry and its consumers.

The number of legislative and regulatory actions is no doubt an indication that entities across the country take data security seriously. While it would be hard for anyone to argue that cybersecurity and the rules around it aren't essential for society, they don't come without compliance complications – and costs - for companies of all sizes.

New York insurers that hadn't begun implementing cybersecurity standards prior to the March 1, 2017, effective date could have high costs associated with coming into compliance. Dianna McCarthy, a partner in the Winget, Spadafora, & Schwartzberg law firm who works with New York-based insurers, says many smaller companies could find it tough to comply.

"With New York's cybersecurity regulations, companies are required to have named people accept responsibility," she says. "Companies are going to have to have a cyber-related person on their boards. That can be difficult."

Smaller companies are already in a battle for talent, and with the current supply-and-demand environment for cybersecurity professionals, finding those qualified executive- and board-level professionals could prove even more challenging. Achieving compliance with the written cybersecurity plan and annual reporting process requirements could be time consuming for insurers that don't already have them.

"There is a five-million-dollar exemption," McCarthy says, "But even companies that fall into that exemption should work on a plan, in my opinion. It is an issue that is going to continue for all company sizes as long as we have computers."

Kirk Herath, vice president, associate general counsel, and chief privacy officer for **Nationwide**, says his organization also feels the effects of cybersecurity requirements. Because Nationwide also owns a bank and sells securities, it must comply with an extra barrage of federal requirements.

"We have the Securities and Exchange Commission reviewing registered products; we have the Financial Industry Regulatory Authority that looks at our broker-dealer; we have the Office of the Comptroller of the Currency that reviews the bank, and the Federal Reserve that looks at our holding company because we own a bank," Herath says.

"They're all looking for the same kinds of information, but they have different methods and interpretations," he continues. "You end up worrying just as much about compliance as you do about the security. It would be best if our regulators could converge on a single-exam methodology."

NAMIC supports a cybersecurity regulatory landscape that is consistent. "Cyber exposure is continuing to evolve," **Paul Tetrault**, NAMIC's state and policy affairs counsel, says, "and regulatory response can never be static. But we don't want all states asking for different things.

"We want uniformity," he continues, "a consistent approach. We want to make sure one requirement doesn't contradict another."

The American people are even looking for a consistent standard. An October 2016 survey by Public Opinion Strategies found that 86 percent of Americans support a single national data breach notification standard.

Herath agrees about the want and need for a more-standardized process. "I think most of us would submit to a higher level of scrutiny if all of the regulators read out of the same hymnal to gather information and judge us," he says.

"We all have the same goal," he continues. "We want to be secure and to have our regulators and our customers to have a feeling of confidence about us."

IDEAS OF INTRIGUE

PAUL TETRAULT

During the National Association of Insurance Commissioners' Spring National Meeting in April, two ideas caught the attention of members of the Cybersecurity (EX) Working Group.

IDEA 1: Adopt a national model based on the New York Department of Financial Services' recently adopted regulation.

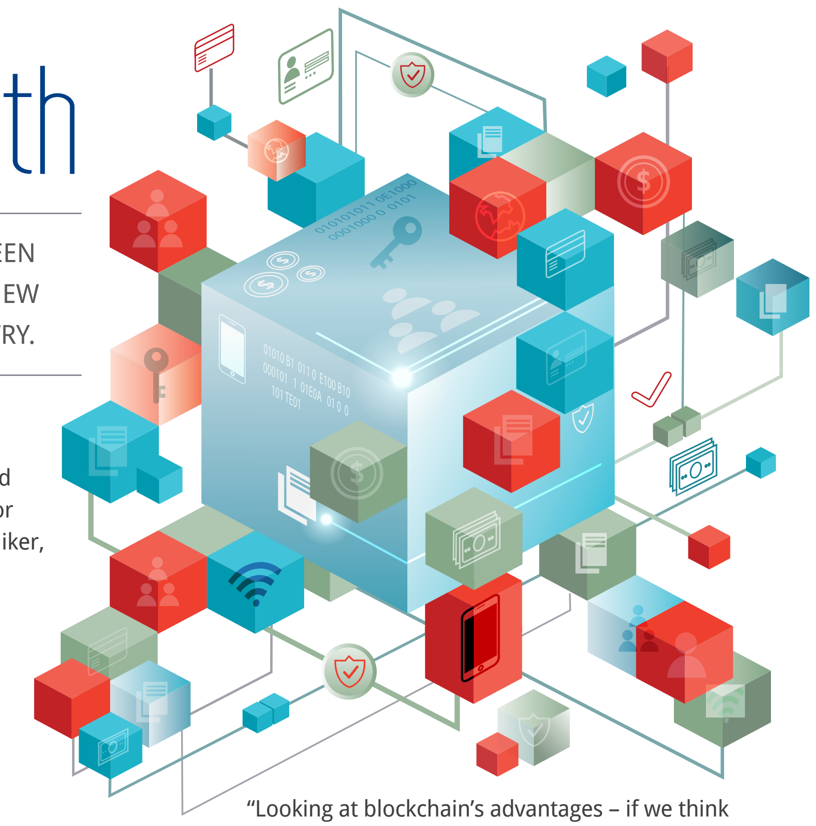
IDEA 2: Adopt only the data security sections of the latest model law draft that appear to be broadly supported by many interested parties and leave the sections dealing with breach response and mediation to be addressed subsequently. This idea is consistent with NAMIC's suggestion in its latest comment letter to the working group.

NAMIC continues to monitor developments within the working group.

The Single Truth

THE TECHNOLOGY BEHIND BLOCKCHAIN HAS BEEN AROUND FOR SOME TIME, BUT PUTTING IT TO NEW USE COULD SIGNIFICANTLY IMPACT THE INDUSTRY.

LINDSAY ROBISON



To the average person, the term "blockchain" might sound like an addictive game to download from the Apple App or Google Play stores. In fact, there is a game with that moniker, and it has been downloaded more than 100,000 times.

For insurance organizations, blockchain might not mean fun and games, but it could be addictive. It has quickly become an industry buzzword and something many people are calling a potential game changer.

What Is Blockchain?

The deepest innerworkings of blockchain technology are complex, though not new. It is the same kind of technology behind the digital currency known as bitcoin.

In its simplest definition, blockchain is a mutually distributed digital ledger in which transactions are recorded chronologically.

This means blockchain network stakeholders each own a copy of the distributed ledger. Every time one of them makes an edit to the ledger, a new block is added to the chain. Each block, according to **Elizabeth Wesson**, director of digital strategy for **Swiss Re**, is verified by a distributed consensus mechanism to ensure only valid transactions are conducted.

Why Does It Have Game-Changing Potential?

"What is special about blockchain is that through the use of cryptography and those consensus algorithms, blockchain establishes a trust layer among participants," Wesson says. "Instead of everyone having their own version of a ledger, they all have the same exact copy. There is just one version of the truth."

> Blockchain is fascinating and is transforming the industry. I think insurance is one of the most perfect cases for this because there is so much sharing of data.
>
> *Simon Gaffney, chief data officer, Willis Towers Watson*

In an environment where regulators, legislators, customers, even insurers and reinsurers are calling for more transparency, this technology could be a step in the right direction.

"There is an increasing desire to see evidence," **Simon Gaffney**, chief data officer for **Willis Towers Watson**, says. "Looking at blockchain's advantages – if we think about the core controls, if transactions are immediate, distributed, and cannot be edited or deleted, there is a much better audit trail than today's systems and controls."

It could also include steps in the right direction toward reducing fraud while increasing efficiency. A blockchain can keep one claim from being paid multiple times because the networked ledger would know the claim had already been paid, according to a 2016 white paper released by **Deloitte**.

A widely accepted blockchain could also "help to reduce further, if not entirely prevent, fraud if identity management was also enforced on the blockchain – meaning that criminals could no longer crash for cash or exploit the current challenges of sharing data unless their methods for obscuring identities became significantly more sophisticated," the paper's authors wrote.

Because all participants can transparently see every edit within the blockchain, each participant can spend less time on the administrative end. Because of the increased transparency, "transactions will settle faster, cheaper, and with less operational risk," says **Markus Tradt**, information technology architect for **Munich Re**.

Gaffney says blockchain could assist in solving any problems of reconciliation. "All the time we spend and cost we all incur reconciling transaction details ... ," he says. "It has been estimated that these technologies could save the industry about five to ten billion dollars. That is one reason why people get very excited about it."

Testing the Potential

With game-changing aspirations in mind, some of the world's largest insurers and reinsurers banded together in late 2016 to launch the Blockchain Insurance Industry Initiative, more commonly known as B3i. Five organizations began B3i, and it has since grown to 15 members.

"One of the best ways for companies to get into [using blockchain technology] is to start to collaborate with industry peers," says Swiss Re's Wesson. "The only way this technology is going to happen – and have great impact on the industry – is if we work together, play around with it, try to understand it, and set collective standards."

> At the end of the day, my hope is that regulators will be supportive and enthusiastic about blockchain technology. But I think there is a learning curve we're all experiencing.
>
> *Elizabeth Wesson, director of digital strategy, Swiss Re*

At press time, B3i is working on proofs of concept to see if the potential game changers can become real. Wesson says the group hopes to have its minimum viable product, which is a reinsurance retrocession between a primary insurance company and a reinsurer, finished this summer.

"It is the first proof of concept, but we're certainly not limited to it," Wesson says. "The objective of B3i is to experiment with lots of different applications to the technology and to drive standards for wider blockchain adoption. Reinsurance is only the starting point."

Innovation for All

While "starting somewhere" has involved some of the largest insurers and reinsurers in the world, those involved say blockchain isn't something that is restricted to large companies.

Munich Re's Tradt says, "This is a true industry initiative. Members have equal rights and obligations. B3i has an inclusive approach toward all stakeholders in our industry."

Wesson stresses that blockchain is an application for companies of all sizes. While she believes larger companies will lead the way, she says Swiss Re has received inquiries from industry enterprises of all sizes that want to know how blockchain could benefit their companies' operations.

Despite the fact that the technology behind blockchain has been in existence for almost a decade, Willis Towers Watson's Gaffney believes there is still a lot of work to be done before the industry sees widespread use. "I think we will see more proofs of concept and pilots throughout this year," he says. "I think organizations will start to see it maturing between 2018 and 2020. We'll see it become mainstream in 2020 and beyond."

Blockchain Insurance Industry Initiative Members

Original Members

- Aegon
- Munich Re
- Zurich
- Allianz
- Swiss Re

Other Members

- Achmea
- Ageas
- Generali
- Hannover Re
- Liberty Mutual
- RGA
- SCOR
- Sompo Japan Nipponkoa
- Tokio Marine Holdings
- XL Catlin

Factors Needed for Blockchain Success

1. A proven technology proof of concept
2. Regulators' blessing of the platform
3. Industry collaboration of defined standards

Source: Munich Re

INTERVIEW

Q&A with the National Association of Insurance Commissioners' Michael Consedine

WHEN MICHAEL CONSEDINE BECAME CEO OF THE NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS IN JANUARY 2017, IT WAS HIS RETURN TO THE INSURANCE REGULATORY REALM. HE SPENT 2011 THROUGH 2015 AS PENNSYLVANIA'S INSURANCE COMMISSIONER AND SERVED THE NAIC AS SECRETARY/TREASURER, VICE PRESIDENT, AND PRESIDENT-ELECT. BECAUSE OF HIS BACKGROUND, CONSEDINE IS NO STRANGER TO NAMIC, AND HE AGREED TO CHAT WITH IN MAGAZINE AS HE'S SETTLING INTO HIS CURRENT ROLE.

Q: ***The future of the Federal Insurance Office has been a much-discussed topic within the industry. Can you talk about what changes the NAIC would like to see when it comes to the FIO?***

A: Having a partnership with the U.S. Department of the Treasury has always been important to state insurance regulation, and we have always looked forward to engaging with our partners at the Treasury, the United States Trade Representative, and the State Department on issues of an international variety.

But the NAIC's position on the FIO is clear, and we reiterated it when we called for the elimination of the office. Our experience with the FIO has really been one of opportunity loss, even occasional frustration. The ambitions set out in the creation of the office were never fully realized. We didn't see the effectiveness on the international stage in pushing a pro-United States state agenda at the legislative and regulatory levels. We didn't see a unifying force for the United States.

We have already engaged in outreach with the new administration and the new Treasury secretary. We look forward to working with him and his team on the issues that matter to us. We just don't need to create any additional bureaucracy around it.

Q: ***When the United States and European Union reached a decision on the covered agreement in January, the NAIC expressed its skepticism. With congressional hearings behind us, what are your thoughts on the agreement and its potential impacts on American insurers?***

A: We want to be helpful in resolving this issue for U.S. companies that are impacted by this primarily European problem. We recognize that a covered agreement is one of the mechanisms that could be used. It is not that we have a complete and utter rejection of it as a mechanism, but if we are going to use this process and its unprecedented nature, then we better get the best deal we can out of it.

When it comes to the covered agreement, it boils down to the fact that we're not sure that this is the best deal possible for the U.S. markets and U.S. consumers. We're not even sure if it is a good deal at all.

The inherent issue is the covered agreement's ambiguity. I am a trained lawyer and I had to read it five times before I even thought I had an idea as to what it might mean. I have spoken with others who are similar experts, and we all have different interpretations.

What is pretty clear is that we'll eventually get to a zero-collateral requirement here in the United States. What is less clear is what we get in return and who ultimately decides how and when we get whatever it might be.

We were very encouraged by Chairman Sean Duffy's letter to the Treasury asking for assistance in getting clarification and potentially re-engaging with Europe to get clarification in some formalized way. We look forward to visiting with the new administration about it and stand ready to be part of the process in a meaningful way going forward.

Q: ***The future of the FIO and the covered agreement are in-depth-enough issues to keep you busy, but what are other top priorities for the NAIC?***

A: Our members are once again facing challenges with health insurance. Some states are in crisis management. Their constituents are afraid of the current disruption and it has left states in a very difficult position. It's an issue in which we're already engaging the administration. We will be working with the administration as it looks at adjustments. We will emphasize our role as an independent expert resource for policymakers. The reality is that the crisis needs to be addressed, and we are dealing with it on the frontlines, in the trenches. Our members need to provide policymakers with answers that we hope will lead to relief for Americans across the country.

Long-term care is another big issue for us. It is a product that has somewhat of a troubled history. But it is also a product that holds great potential for Americans, especially as we deal with a retirement savings crisis.

We're watching Dodd-Frank reform very closely. We will be making recommendations on that as well as the Financial Stability Oversight Council and nonbank Systemically Important Financial Institution designations. We also know Congress is going to have the flood insurance program reauthorization at the top of its agenda. I will be out there reiterating our views on the program and the need for some private-sector options there.

Cybersecurity, big data, and the role of technology in the property/casualty and life/health sectors are also huge issues. In many cases, they can be used to better design products and services for consumers, but we have to balance that with their potentially harmful uses. As regulators, we need to understand it all and make sure they are being used in appropriate ways.

The list really goes on and on, including issues like tax reform. None of us will be bored for the foreseeable future.

Q: ***On the topic of cybersecurity, can you update us on the draft NAIC Cybersecurity Model Law?***

A: We formed the Cybersecurity Task Force, which has been meeting regularly since 2015. I know the group has taken very seriously all of the comments it has gotten from the industry. Some pieces of the model law have gone back to the proverbial drawing board. The group is making very good progress and is now working on a principle-based approach that reflects stakeholder comments.

Read more of our interview with Michael Consedine in the digital version of IN at NAMIC.org.

Honey, I Shrunk the House

FAD MOVEMENT OR NOT, TINY-HOME LIVING IS INCREASING. INSURERS MUST CONTEMPLATE IF AND HOW TO COVER THEIR RISKS.

LISA FLOREANCIG

It seems the tiny-home trend is skyrocketing throughout the United States. National media has jumped over its threshold with articles appearing in publications such as Forbes, The New York Times, The Washington Post, and The New Yorker. But the pièce de résistance for any curiosity seeker are "Tiny House, Big Living" and "Tiny House Hunters" on HGTV, television shows that allow viewers to sit back and wonder "How the heck does anyone live in such a small space, particularly with a spouse and a [insert the name of a large-dog breed]?"

What they probably don't ask is "How in the world do you insure these spaces?" For an insurance company, that question must come to mind … and there is a lot to consider.

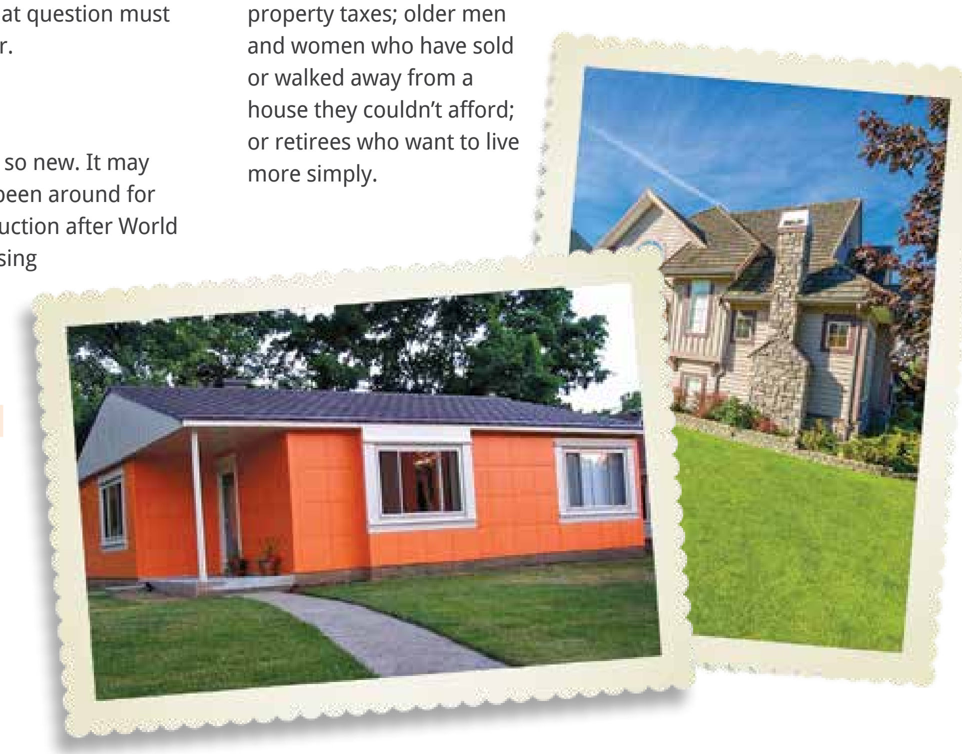
Tiny Houses, Long History

This "new," trendy style of living actually isn't so new. It may be surprising to learn that tiny houses have been around for centuries - think igloos and new-build construction after World War II. At the end of the war, affordable housing was in short supply. As service members returned to the states, home builders cut costs by designing and building houses in the 500-square-foot to 800-square-foot range. Ceramic-tiled-exterior Lustron homes (pictured right) come to mind.

As years went on and the economy grew, so did the size of American homes. What 1,200-square feet could once accommodate, the "need" for 2,600-square feet or larger began to take hold. But sometimes, maybe, bigger isn't better.

Interest in small and more-sustainable housing has fluctuated the last 50 years, thanks in part to economic conditions, employment rates, and, of course, the ever-rising homebuilding costs. But it really took off less than a decade ago when a social movement began to take shape quietly throughout the country.

So while some may believe this trend of small-home ownership was catapulted by a handful of tree huggers, its members include Americans fed up with mortgages, property taxes, maintenance, and all the other challenges exclusive to homeownership. The New Yorker's recent article, "Let's Get Small," found that people who live in tiny houses fall into three categories: young people who see a tiny house as a way of owning a place while avoiding property taxes; older men and women who have sold or walked away from a house they couldn't afford; or retirees who want to live more simply.



"The government often tries to monkey with the market through government manipulation of the prime lending rate and government-backed incentives," says Christopher Galusha, president of the American Tiny House Association. "These shenanigans are what gave us the housing crash of 2008. The desire for more sustainable homes has certainly taken off since then."

The Costs of Shrinking Homes

Tiny-home living transcends empty nesting and downsizing. These little houses take up an average of only 186 square feet – but they can be as large as 1,000 square feet, according to The Tiny Life, a resource center for people seeking information on tiny-house living. Small, yes, but so, too, are the price tags – a much-more palatable $23,000 if built by the owner, compared to the U.S. Census Bureau average of $272,000 for a standard house.

Numerous benefits of micro-home ownership await those opting for the tiny life. Besides the fact that there isn't much housework required, tiny-home owners reap simplicity, sustainability, autonomy, community, and creativity.

While saying "buh-bye" to traditional-home living might seem attractive, trading that larger home for a smaller one – either one with a permanent foundation or on a trailer for moving about – could be met with all sorts of difficulties. For starters, there are no uniform national building standards for tiny houses, let alone a legal definition of "tiny house."

"Tiny homes built on permanent foundations are most often built to the local building codes with the appropriate inspections, materials, and methods when built inside city limits," Galusha says. "But when they are built outside any jurisdiction with an inspection program, they can be as poorly built as any other shanty."

Many tiny housers with abodes on wheels have been forced to dodge zoning and building inspection laws and ordinances, creating frustration for many government officials, says Galusha, but "now that the tiny-home movement is really gaining traction, [local governments] are having to face these issues head on, whether they want to or not."

Fortunately, for micro dwellers, many cities are beginning to broaden their opinions of tiny homes. In the 2016 Stateline article "Tiny Houses are Trendy, Minimalist, and Often Illegal," readers learn that some local governments are attracted to the potential these homes have as answers to housing shortages or, possibly, housing the homeless. In Seattle, a tiny-home village like this is currently under construction. "Cities such as Washington, D.C., and Fresno, California, have eased zoning and building rules to allow them, and in May [2016] California's housing department issued guidance to help builders and code enforcers know which standards they need to meet," the article states.

Nevertheless, homeowners and local officials across the nation continue to express fear that small houses will drive down property values. Some state and local governments are confused about how to classify these houses – as RVs, mobile homes, or backyard cottages – and still refuse to allow them.

Big Insurance Questions

The challenges don't stop at city hall; insurance, too, has been a growing concern for owners of tiny homes. "These homes are often built [do-it-yourself] or by new builders who are unfamiliar with the trade of residential construction," Galusha says. "They are built without oversight and, therefore, insurance companies cannot determine what their potential financial risk of underwriting these dwellings is, so they don't insure them. If these homes are produced by [Recreation Vehicle Industry Association]-certified builders or ones that have [homeowners association] certification, finding an insurer may not be as difficult."

PEMCO Insurance Company doesn't offer a unique insurance product for tiny houses, but **Derek Wing**, the company's communication manager, freely speculates. "If we did provide coverage, it would be based on the specifics of the house in question," he says. "A permanent structure would need a home policy, but depending on the value of the house, it might not meet our minimum coverage levels."

Wing explains that a tiny home on wheels would be considered either a mobile home or trailer. "I spoke to a manufacturer at a home show last year," he says. "They considered their structure a trailer and instructed anyone purchasing one to get coverage through their auto insurer. For those that have wheels and are mobile, we don't insure. They are a bit different than a typical travel trailer/camper and may pose more of a risk."

However, there are a handful insurers that do provide needed products to their policyholders who have become housing minimalists. **Shelter Insurance Companies** provides products for owners of tiny homes, but similarly to PEMCO, the type of policy Shelter writes depends on the structure. If used as a travel trailer and not as a full-time residence and the pulling unit is insured by the company, the company would insure it under its auto policy as a travel trailer. If the structure is built on a slab or is anchored like a manufactured home, it would be insured on a dwelling policy.

Brian Waller, Shelter's vice president of government relations, says that while the number of tiny homes being produced is growing, the market providing coverage is somewhat sparse. "We offer coverage in a limited number of cases," he says. "We don't see this as a niche in the context of a segment of business we want to write because no one else is writing it. We see this as more of an accommodation for customers. In other words, we're not aggressively going after this business."

Wing's personal opinion is that the tiny-home movement is a fad, an opinion he has heard throughout the industry, including an insurer that specializes in mobile homes. And, while Waller might acquiesce to experiencing such a lifestyle, he wouldn't make it a permanent choice. "… not unless it was a weekend retreat that I didn't use very often. I like my space and do not like being confined."

Rules of the Game

GAMIFICATION IS AN INCREASINGLY USED BUSINESS TOOL. BUT AS WITH ANY GAME, PLAYERS MUST FOLLOW SOME RULES.

TINA OREM

America is a country of gamers. The Entertainment Software Association reports that 150 million U.S. citizens take to the virtual world. This statistic may not astonish anyone, but what might catch people by surprise is that fact that an increasing number of insurance companies are getting into this business.

While you probably won't ever find an insurer setting up shop at your local gaming convention to show off its latest project, there are carriers, mutuals included, that are taking bold steps to modernize their brands. They are ditching their old phone apps, sign-up processes, and training modules in favor of brighter, more engaging versions that borrow heavily from the booming video game industry.

The approach is called "gamification." It involves injecting video game design elements into everything from company training programs to employee activity trackers, customer enrollment processes, and a multitude of other day-to-day activities involved in the buying, selling, and managing of insurance.

The idea is to influence how people behave by making sometimes-routine activities more interactive. Industry pros say it can boost sales, motivate employees, and woo customers. But like any game, there are a few rules to follow in order to win.

RULE 1
Everything Doesn't Have to Look Like Super Mario Bros.

Successfully gamifying a company's offerings doesn't require over-the-top engineering and lavish design, says Karlyn Carnahan, who studies gamification in the insurance industry and is head of property/casualty for the Americas at research and consulting firm Celent. Adding just a few video game elements into a sign-up process or training module can make a huge difference in how people engage with it, she says.

This can mean adding something as simple as a completion bar to a process, Carnahan explains. Other common techniques include awarding points or badges, providing leaderboards that show how users rank relative to one another, implementing "levels" beyond which users get certain rewards – such as unlocked content, and even social media capabilities that give users bragging rights.

Some insurers, for instance, are gamifying their telematics programs, which involve frequent transmissions of information about user behavior – typically, driving habits from a device installed in a customer's car. **Liberty Mutual's** HighwayHero app, which was announced in January, monitors and scores customers' driving behaviors. Rather than just regurgitating data, the app lets users track their progress, compete against other drivers on city leaderboards, and win badges such as "Safest Driver." Drivers can even get discounts based on their scores.

Gamification's magic happens through the instant feedback to the user, according to Carnahan. "It's not just about entering data, it's a sense of movement. It implies that there are things you can do to move forward, that little psychological draw of wanting to progress, this idea of demonstrating completeness," she says. "Human beings, we like to finish things."

RULE 2
It's Not Just For Customers

Human resources, training, sales, and other internal functions can also get a boost from gamification. One carrier Carnahan studied gamified its customer service training portal.

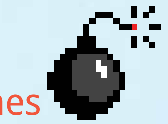
"Every morning [the company] sends out a few questions to its customer service representatives. The questions may be things like, 'Find something on the portal,' or 'Answer a question about some nuance of a particular product,'" Carnahan explains. "The faster they answer these questions and the more accurately they answer them, the more points they get. This is something that CSRs actually really love. They get to the office and the first thing they do is check out the game and get their points."

RULE 3
The IT Team Must Play Offense

Mutuals that want to gamify effectively will need information technology teams that are nimble, forward thinking, and creative. That's because consumers today aren't using other insurance companies as the yardstick against which they're measuring an insurer's competence. When it comes to technology, they're using companies such as Starbucks, Google, and Amazon as comparisons.

"The customer experience that insurance consumers demand is no longer informed by how they interact with other insurers or banks but by the more technology-savvy world of retail, consumer products, and service companies," consulting firm **Deloitte** reports in a study of tech trends. "The implication: ease of use is top of mind for both the novice and experienced insurance customers – and IT workers need to do things differently to support customer engagement.

"The IT worker of the future should think customer experience first, supported by the underlying technology," it adds.



RULE 4
Regulations Can Add Glitches

Gamification strategies have to involve more than just the IT team, of course. The legal consequences of sloppy implementation can be expensive, Carnahan cautions.

Privacy is important. Mutuals need to be careful about how they handle personally identifiable information that they acquire through their games, for instance.

"Some users might be very happy to have their successes broadcast via leaderboards, but others may not realize what they're signing up for when they decide to participate," Carnahan adds.

Games intended to reward employee performance could backfire and become labor issues. Broadcasting which employees are most efficient, for example, could encourage others to skip breaks or embarrass or single out workers.

"If you're doing this internally, you have to think about what you're measuring," Carnahan warns. "It could lead to a hostile work environment."

Games designed to improve employee wellness could be subject to health care rules. Those designed to boost sales could run afoul of trade practice laws if users don't clearly understand that the intention is to advertise a product. And if the game elements look too much like another organization's game designs, there could be intellectual property problems.

"If you're thinking about doing gamification, it's always a good idea to bring your general counsel in to take a look at it," Carnahan advises.

RULE 5
Measuring Success Is Not a Game

As is the case with any investment, it's important to define what success will look like before jumping into a project.

"Usually people start by simply monitoring the behavior of the users," Carnahan says. "How many people are participating? Are they earning coins? Are they progressing through the levels? Are they accomplishing the goals? So the first question is, is anybody using this?"

The second piece, Carnahan says, is to look inward. "Are you hitting the goals you defined?" she says. "If your goal is brand recognition, did your brand recognition go up? If your goal is increased submissions of applications, did you get more?"

Creating a control group can help isolate gamification's impact, she adds.

RULE 6
You Can't Win If You Don't Play

Some researchers expect the gamification market to hit $10 billion by 2020. But many mutuals seem to be sitting on the bench, according to a survey of carriers Carnahan did last year.

"Our data showed that five percent of carriers said they have some type of gamification initiative in production; eighteen percent said they were in the process of planning a gamification initiative; and seventy-seven percent said they had no plans to go down this path," she says.

Another survey, published in 2016 by **Majesco**, a technology firm specializing in the insurance industry, found that the vast majority of carriers aren't focusing on gamification or are merely monitoring it. The survey reported that this was also the case for other emerging technologies such as biotech, wearable connected devices, and connected vehicles.

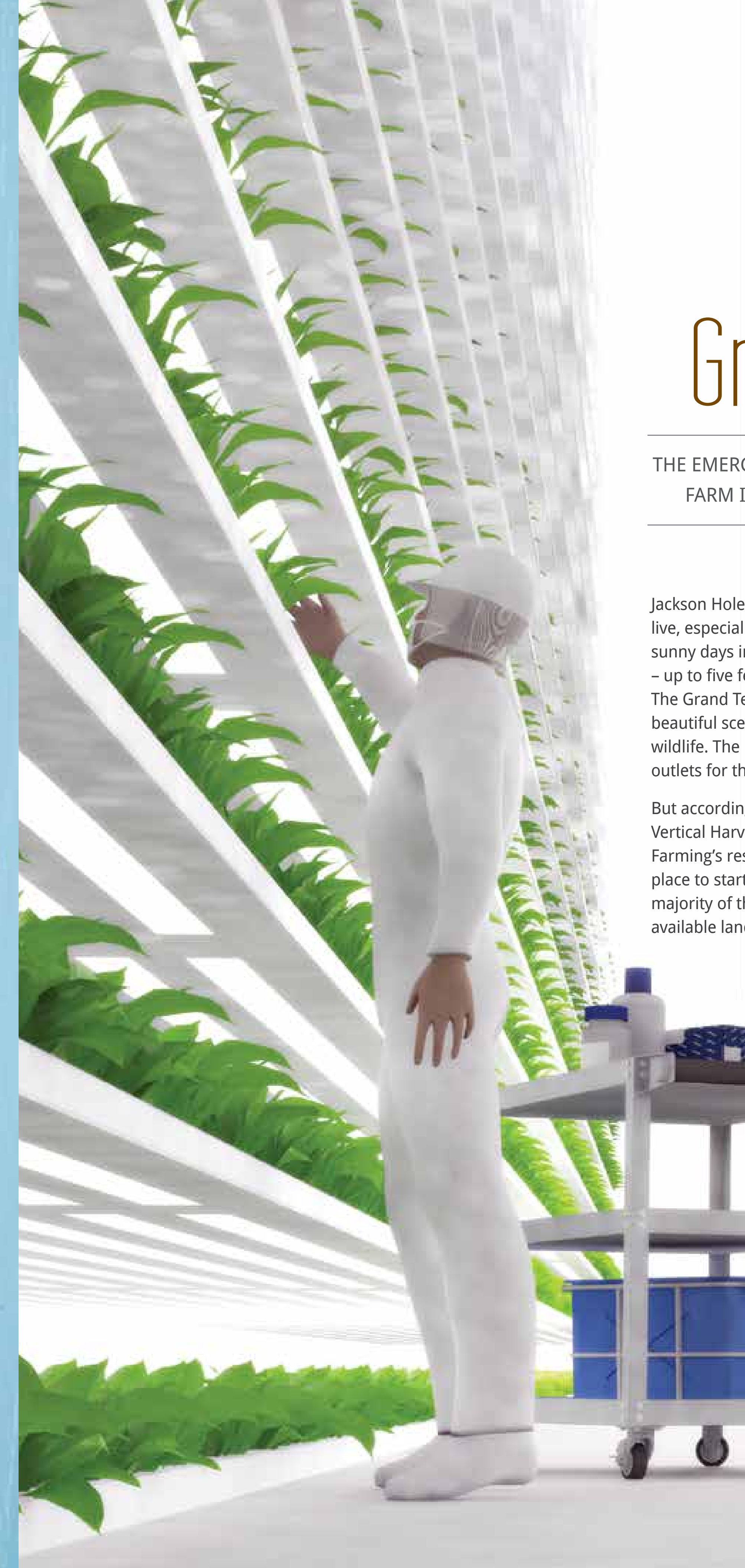
"While the challenge of too many competing issues is the likely cause, each of these technologies is poised to dramatically change the industry's new business models, competitors, risk management, and product pricing," Majesco wrote.

Sitting still on things like gamification might be a dangerous choice, the tech firm warned.

"Considering the amount of focus industry analysts and other industries place on the pace of adoption of these technologies, companies would be wise to more actively assess and strategically begin to prepare what their response and options will be. Companies who are not monitoring and discussing these trends place their future and competitiveness at significant risk – potentially missing their accompanying opportunities," Majesco's survey report stated.

Gamification doesn't have to be overwhelming.

"A carrier can start small," Celent's Carnahan says. "Choose something you think will have some potential material impact and think about how to make it fun."



Growing Up

THE EMERGENCE OF VERTICAL FARMS IS BRINGING FARM INSURANCE TO A WHOLE NEW LEVEL.

LINDSAY ROBISON

Jackson Hole, Wyoming, is a great place to explore, to visit, to live, especially if you enjoy seasons. The area boasts warm, sunny days in the summer and lots of snow in the winter – up to five feet in the valley and 10 feet in the mountains. The Grand Teton and Yellowstone national parks provide beautiful scenery and chances to get up close to the local wildlife. The rivers and mountain peaks can be breathtaking outlets for the adventurous types.

But according to Penny McBride, founder and owner of Vertical Harvest and co-chair of the Association for Vertical Farming's research division, Jackson Hole can be a difficult place to start a business. She says this is because the majority of the county is publicly owned, which means available land is scarce … and expensive.

Still, it was where she wanted to start her business – an urban farm greenhouse that would be easily accessible for those who would work there. "I have always loved the concepts of urban greenhouses and local food production," McBride says. "In a mountain community, we import almost everything."

In the late 2000s, McBride took her idea to the community to see if people would be interested. Unfortunately, the idea of a community-owned greenhouse didn't take off. She continued with the idea as a privately owned venture, but available land proved to be an obstacle. The best option: a 30-foot-by-150-foot sliver of land left over from a public parking garage project.

"The location was ideal," McBride says, emphasizing her goal of wanting employees to be able to take public transportation, walk, or ride bikes to work if needed. "There is a bus stop right across the street, it's two blocks from the town square. The location was perfect; the challenge was that it was so small."

So McBride began working with a greenhouse engineer to make sure growing up rather than out was feasible. "That is how we ended up with a three-story greenhouse," she says,

Vertical Harvest is just one instance of the growing trend of vertical farming. The movement has taken off overseas, in countries such as Japan where the population is dense and land – especially farmland – is scarce. But it is also expanding in America. Retail giant Target launched an initiative in 2016, with plans to begin testing in-store vertical farms this year. Kimbal Musk, the brother of SpaceX's and Telsa's Elon Musk, launched a vertical farming program inside an old Pfizer factory in Brooklyn, New York.

The world's largest vertical farm – AeroFarms – opened in September 2016 in Newark, New Jersey. AeroFarms' owners renovated a 69,000-square-foot warehouse that will reportedly produce 2 million pounds of greens a year.

Newark, New Jersey, doesn't sound like a farming mecca, but **Bruce Tagg**, senior engineering exposure analyst for **Mutual Boiler Re**, says that is exactly what makes vertical farming enticing.

"In addition to the fact that this method uses ninety, ninety-five percent less water and hardly any chemicals, the draw is that you can put the product close to the people consuming it," he explains. "You remove travel costs and, in many cases, you're repurposing old building. Which is, frankly, also one of the hazards"

Tagg says vertical farms have been on Mutual Boiler Re's radar for the last couple of years. He and colleagues are working to raise awareness of these operations.

"Many companies are ignoring the potential property risks of vertical farms. There may be an 'oh-that-will-never-happen-here' thought process," he says. "But whenever I go to speak with partner companies and at conferences, I have been able to find an operation close to them. That opens their eyes."

Risks at vertical farms are much different than those at outdoor operations. "I grew up on a traditional farm," McBride says. "I remember the worry that would we would have when a big storm came through. There was so much risk involved that was out of our control."

With indoor farming, weather is much less of a factor. In fact, farming inside significantly increases the amount of time vertical farmers have to grow their products – 24 hours a day, 365 days a year if they want. But the lighting and other equipment required to run these operations increases electrical, fire, equipment breakdown, and business interruption risks.

Exposures and Insurance Considerations

- Business interruption
- Electrical systems hazards and issues
- Potentially aging building systems
- Expensive, perishable products
- Equipment breakdown

Source: Mutual Boiler Re

"Power loss for some aspects of a traditional farm doesn't even come into play," Tagg says. "But when you have operations that run indoors on power and you lose power, you could lose everything – heating, cooling, water and its movement, lighting."

McBride says Vertical Harvest had to consider these exposures, which she and her colleagues hadn't thought about until they encountered them. The greenhouse operates a small retail space, so McBride says there are food safety exposures. Building code compliance exposures also present themselves. "We had to have fire suppression and a firewall placed between the greenhouse and the parking garage next to us," she says.

The possibility of vandalism and how to recover if it were to happen were other considerations that McBride hadn't previously pondered.

When Tagg speaks about vertical farms at conferences and with partner companies interested in the topic, he encourages them to ask questions, to really glean the kind of exposures they might be covering.

"We're seeing [vertical farms] that specialize in raising crops for pharmaceuticals and cosmeceuticals," Tagg says. "They may say they're growing tobacco, but they're really growing very expensive hybrid plants. That exposure to loss is dramatically higher.

"We're trying to educate our partner insurance companies that they don't just need to know about the building, the lights, and the water," he continues. "They need to know about what is being grown and its insurable value. It may make a big difference, especially on the business interruption side."

While vertical farms won't ever put the more traditional versions out of business, they are proof that the farming environment and the ways in which it is insured are changing. "Vertical farms are much more manufacturing oriented than traditional farms," Tagg says. "That introduces more exposures. Awareness of the risks is key."

The Advantages and Disadvantages of Vertical Farming

ADVANTAGES

- Could produce 40 to 100 times more product per square foot than traditional farming
- Uses 90 percent less water than outdoor fields
- Year-round crop cycles
- No use of harmful chemicals
- Potential for lower transportation costs
- Not affected by severe weather events
- No need for expensive farm equipment
- Reduced waste and spoilage

DISADVANTAGES

- High start-up costs
- High maintenance costs
- Limited variety of crops
- Pollination issues – must be done artificially

Source: Mutual Boiler Re

From the Trenches: Four – or Five – Truths of Insurance Litigation

THE ATTORNEY VIEW OF REPRESENTING INSURANCE COMPANIES.

JOSEPH HAMPTON

During my two decades in practice, I've hired a lot of associates. In interviews, I tell them that representing insurers is no picnic and that the platitudes they heard in law school about litigation being a search for the truth, about lawyers being noble and collegial adversaries, and about reason and the contract's terms controlling are, well, often myths.

Most candidates don't really get it until later. This usually happens when, after a year or so working with me, an associate reads an opposing brief and says "Are you kidding me? How can they do that?"

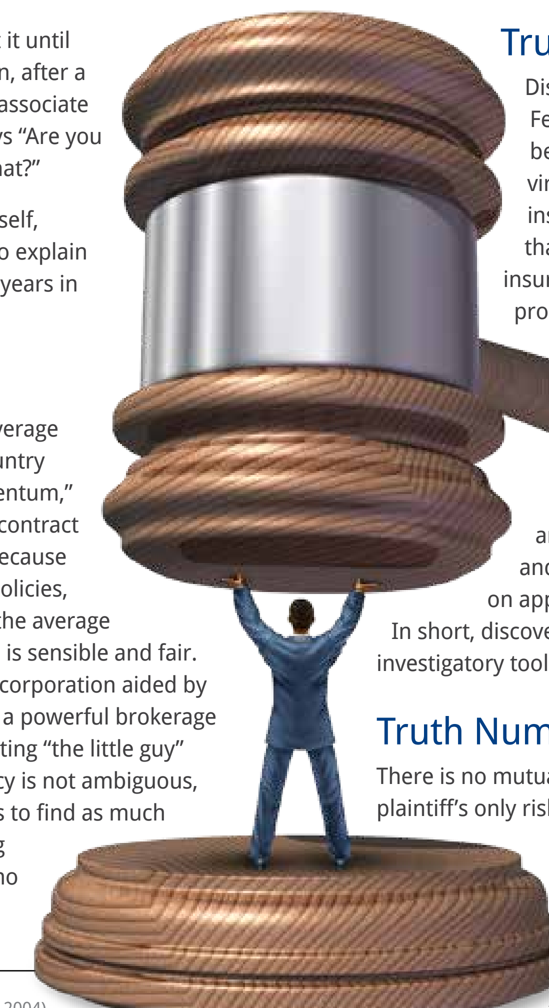
"Another epiphany," I say to myself, and think, "This is my opening to explain some truths that we learn after years in the trenches."

Truth Number One

Courts want insureds to win coverage disputes. Courts around the country apply the rule of "contra proferentum," interpreting any ambiguity in a contract against the person drafting it. Because insurance companies prepare policies, this rule applies. In the case of the average personal lines policyholder, this is sensible and fair. But when the insured is a huge corporation aided by professional risk managers and a powerful brokerage firm, any justification for protecting "the little guy" disappears. Even when the policy is not ambiguous, judges will go to baffling lengths to find as much coverage as they can – including one case where a pedestrian who had left his vehicle to talk to someone in another vehicle was hit by a third vehicle. He was found to be "using" the first two cars at the same time for coverage purposes.[1]

Truth Number Two

"Bad faith" is an amorphous concept, and the bar to prove it can be very low. It's formless because the common touchstone is "reasonableness," which is in the eye of the beholder, in the opinion of the expert witness, and in the mind of the juror. Moreover, many insignificant errors can be called bad faith. Most states have adopted the Uniform Claims Settlement Practices Act, which the National Association of Insurance Commissioners created as guidance for regulation regarding misrepresentations and bad-faith practices, claims responses, and investigations.[2] Some states, including mine – Washington – hold that any violation of those rules can support an extracontractual lawsuit,[3] presumably even if that violation is as minor as missing a response deadline by a day or two. In addition, even though the aim of bad-faith tort liability is to protect the integrity of the coverage promise, the lack of coverage is not always a defense to a bad-faith suit.[4]



Truth Number Three

Discovery has become a lever. Despite the Federal Rules' admonition that discovery should be limited to the needs of the particular case,[5] virtually every bad-faith case I see involves institutional discovery. Institutional discovery is that which goes beyond the facts related to the insurance claim and delves into corporate policies, procedures, finances, governance, and more – even mean-spirited demands for personnel files. The scope of discovery is bounded only by the plaintiff's counsel's imagination. We are often successful in resisting, but the cost and the risk of an adverse decision – especially on appeal – give the plaintiff settlement leverage. In short, discovery is as much a litigation tactic as it is an investigatory tool.

Truth Number Four

There is no mutuality of litigation risk. In most cases, the plaintiff's only risk in bringing a bad-faith suit is that he or she will get a zero verdict. He or she probably won't have to pay costs or fees because his or her lawyers will have fronted the costs

[1] Butzberger v. Foster, 89 P.3d 689 (Wash. 2004).
[2] http://www.naic.org/store/free/MDL-900.pdf
[3] Industrial Indemn. Co. of NW v. Kallevig, 792 P.2d 520 (Wash. 1990).
[4] Coventry Assocs. v. American States Ins. Co., 961 P.2d 933 (Wash. 1998).
[5] Fed. R. Civ. P. 26(a).

and taken the case on a contingent fee. If the plaintiff loses, the insurer does not recoup litigation fees and costs. The insurer's victory is not having to pay anything more. But if the insured wins a bad-faith suit, the insurer must pay the damages, plus – most often – attorneys' fees and costs and – sometimes – punitive or multiplied damages. Finally, I must add:

Truth Number Five

Insurers can win these cases, or at least settle them reasonably. Most adjusters act ethically, competently, and professionally and promptly pay what their companies owe. Litigation may occur even when the insurer is correct, simply because the insured had unreasonable expectations or was disappointed in the claim's process. We must all remember that the vast majority of claims are paid without dispute and that the tip of the pyramid representing claims in bad-faith suits is not representative of the bulk of any insurer's claims handling. When litigation occurs, an insurer and its counsel should ensure that the case narrative reflects the company's responsible response to a claim, even when the proper response is a denial.

That's how I leave discussions with associates ... on a high note. Our clients, especially their personnel, deserve good lawyers. We fight the good fight, even if it is an uphill battle.

JOSEPH HAMPTON is a shareholder lawyer in the Seattle, Washington, office of Betts, Patterson & Mines, P.S., where his practice consists mainly of representing insurers with respect to coverage and extracontractual issues. The views expressed in this article are Hampton's and may not represent the views of the firm or its clients.

In Consideration

By Dan D. Kohane and Brian D. Barnas

In the liability insurance context, courts ask whether an insurer's conduct constituted a gross disregard for an insured's interest. What that means is: Was there a deliberate or reckless failure by the insurer to place on equal footing the interests of the insured with its own interest when considering a settlement?

When determining whether an insurer acted in bad faith when deciding not to settle a claim, a court instructs the jury to consider:

- The testimony concerning the basis on which the decision not to settle was made;
- The expert testimony presented concerning what should be considered in making such a decision; and
- All of the facts and circumstances existing at the time the decision was made.
  Those facts and circumstances could include:
  - The probability in light of the evidence that it appeared would have been presented to the jury in the underlying action, that the jury would have found in favor of the plaintiff;
  - The probability in light of the evidence concerning injuries and damages that a verdict, if in favor of the plaintiff, would be in an amount which exceeded the policy limit and the amount by which it appeared likely the judgment would so exceed;
  - Whether the defendant had investigated the circumstances of the accident in which the plaintiff was injured or damaged sufficiently to be able to evaluate the probability of a verdict against the defendant;
  - What attempts the defendant had made to settle the claim;
  - At what point in the trial such attempts were made;
  - What recommendation concerning settlement had been made to the insured by the attorney who had been retained to defend the action against the insured and had that attorney advised it of the status of negotiations;
  - Whether the insurer had suggested to the insured the advisability of his obtaining an independent attorney to advise him with respect to a possible settlement;
  - Whether insurer afforded the insured the opportunity to contribute to such settlement; and
  - The financial risk involved for the insured if the settlement was not made as compared with the risk in relation to the limit of its policy which the insured ran if the settlement was not made.

DAN D. KOHANE is a senior partner with Hurwitz & Fine, P.C., a regional and national law firm, headquartered in Buffalo, New York. **BRIAN D. BARNAS** is an associate attorney with Hurwitz & Fine, P.C.

If you have company or employee achievements and recognitions you'd like to share, email details and photos/logos to publications@namic.org.

Awards & Recognitions

Robert Walling III, principal and consulting actuary for Bloomington, Illinois-based **Pinnacle Actuarial Resources**, was named to Captive Review's Power 50. This list is compiled based on votes of nearly 5,000 captive insurance professionals and recognizes the key influencers in the global captive insurance industry. This is the first time Walling received the honor.

West Bend Mutual Insurance, West Bend, Wisconsin, earned a spot on FORTUNE magazine's 40 Best Companies in Financial Services list. Companies making the list are evaluated by an employee survey about trust in management, camaraderie with colleagues, and pride in what employees do every day.

Branding Initiatives

IDT911, Scottsdale, Arizona, announced its rebranding initiative in January. The identity management and data security organization is now known as **CyberScout**, a name which the organization believes better reflects its current and future missions. Along with the new name, CyberScout will broaden its offerings.

Grinnell Mutual, Grinnell, Iowa, unveiled a new brand identity and brand theme – Trust in Tomorrow. – to better align with the company's continued growth and transformation. The rebranding includes new looks for the primary logo, the Grinnell Mutual member logo, and the Grinnell Re logo. This is the first major brand update since 1963.

Motorists Insurance Group, Columbus, Ohio, announced major digital initiatives: a redesigned website and the launch of social media pages. The website integrates all of Motorists' affiliates into one site. Both initiatives are meant to showcase the organization's refreshed brand.

Board Activities

Claudine Modlin, a director in Minneapolis, Minnesota-based **Willis Towers Watson's** risk consulting and software business, was elected to a three-year term on the Casualty Actuarial Society's board of directors. She has been a member of the CAS for nearly two decades.

New Products & Coverages

NJM Insurance Company, West Trenton, New Jersey, partnered with Amelia, Ohio-based **American Modern Group**, to offer enhanced collector car insurance. The coverage offers agreed-value loss settlement, flexible mileage plans, broad usage allowance, and new purchase, spare parts, and trip interruption among other options. NJM also partners with American Modern to offer watercraft, motorcycle, and ATV coverages.

The Main Street America Group, Jacksonville, Florida, implemented its Main Street Protect Auto coverage in New York, Pennsylvania, and Rhode Island in January. The company already offered the coverage in five states. It plans to implement the coverage in five additional states in 2017.

Liberty Mutual, Boston, Massachusetts, announced the launch of its Premier Protector – Builder's Risk product for large contractors and property owners. The product allows for tailored coverages for a single construction project or master programs for an entire portfolio. It is supported by the insurer's inland marine underwriters.

Nationwide, Columbus, Ohio, partnered with on-demand insurance agency Sure to provide renters insurance via Sure's real-time mobile app. Policyholders can obtain a renters insurance quote, purchase a policy, and pay premiums through the app. The product was initially launched in California and Washington state, but the organization has plans for expansion.

Community Involvement

Jacksonville, Florida-based **The Main Street America Group** and its **NGM Charitable Foundation** gave back to the communities they serve during their "Season of Giving" last December. As part of the second annual Holiday Honorarium Program, Main Street America and the foundation presented a total of $28,500 to eight nonprofits in the group's writing area. Main Street America's employees also donated one ton of nonperishable goods to eight food banks and hundreds of toys to eight children's nonprofit organizations.

Acuity, Sheboygan, Wisconsin, announced in January the dedication of the Acuity intensive care and intermediate care unit at HSHS St. Nicholas Hospital in Sheboygan. **The Acuity Charitable Foundation** donated $1 million to the hospital for the unit, which is part of a larger hospital renovation project.

Arbella Insurance Group, Quincy, Massachusetts, announced in February that its **Arbella Insurance Foundation** donated $2.9 million and Arbella employees chipped in more than 1,700 volunteer hours to 604 nonprofit organizations and safe-driving efforts throughout New England during 2016.

Sponsorships

Auto-Owners Insurance, Lansing, Michigan, and Furniture Row Racing agreed to a multiyear sponsorship of Martin Truex's No. 78 car in the Monster Energy NASCAR Cup Series. Auto-Owners' paint scheme will appear on the car in six races during 2017 and again in 2018.

Nationwide, Columbus, Ohio, and the National Football League announced that the insurer would remain the league's auto, home, and life insurance sponsor for four more years. Nationwide will continue to be the presenting sponsor of the Walter Payton NFL Man of the Year Award and will become an associate sponsor of the NFL Draft and a sponsor of NFL Honors.

Mergers & Acquisitions

Auto-Owners Insurance, Lansing, Michigan, and **Concord General Mutual Insurance**, Concord, New Hampshire, announced the approval of their affiliation. It became effective April 1, based on policyholders' and regulatory bodies' approvals.

Milestones

Armed Forces Insurance, Leavenworth, Kansas, is celebrating its 130th anniversary of serving current and retired military members. The company was founded as Army Co-Operative Fire Association, changing its name to Armed Forces Insurance in 1962. The company plans to make the anniversary a year-long celebration. Part of that celebration will be the launch of new online initiatives to serve its members.

Miscellaneous

Penn National Insurance, Harrisburg, Pennsylvania, announced in early 2017 the launch of its Aspire Agent Group. It is comprised of agents who are newer to the property/casualty industry and are considered to have outstanding career potential. The group will meet to discuss ideas and receive training to strengthen their industry skills.

Minnesota Lawyers Mutual Insurance Company, Minneapolis, Minnesota, returned nearly $3.2 million in dividends to its policyholders in March. MLM has paid more than $52 million in policyholder dividends to its members since 1988.

Western National Insurance Group, Edina, Minnesota, announced in March its 2016 year-end results. Total assets grew more than 12 percent, direct written premium increased by 9 percent, and surplus grew by 11 percent compared to 2015 results.

Hires & Promotions

The Concord Group Insurance Companies, Concord, New Hampshire, hired **Daniel McCabe** as a vice president. McCabe has more than 20 years of experience in the insurance industry, He has held officer- and management-level positions with Lexington Insurance, Chubb, The Hanover, Travelers, and MAPFRE Insurance. He graduated from Holy Cross College.

Liberty Mutual Insurance, Boston, Massachusetts, named **Tyler Asher** president of **Safeco Insurance**. He replaced **Matthew Nickerson** who was appointed executive vice president and chief operating officer of Liberty Mutual's global consumer markets East region. Asher has worked with Safeco for 18 years in a variety of roles. He was most recently vice president of distribution insights.

The MEMIC Group, Portland, Maine, promoted **Karen Schwartz** to vice president of underwriting compliance. She will lead the underwriting regulatory compliance and quality assurance teams. Schwartz joined the organization as an underwriter in 2002 and became director of compliance in 2004. She earned a bachelor's degree in business administration from Hofstra University. She holds the Chartered Property Casualty Underwriter, Workers' Compensation Professional, Associate Compliance Profession, Associate in Risk Management, and Accredited Advisor in Insurance professional designations.

Preferred Mutual Insurance Company, New Berlin, New York, hired new staff. **Xenia Allen** joined Preferred as a payroll specialist. She has more than 30 years of experience in the role. She graduated from the State University of New York Empire State College. The company hired **Kenneth Ciccarelli** as a business analyst. He is responsible for driving successful project outcomes working with stakeholders to define and management project requirements. He served a national insurance carrier for 18 years in a similar position. He is a graduate of State University of New York Polytechnic Institute. He holds several industry designations.

TOP 10 NAMIC PAC TOP 10 for Quarter One 2017

TOP 10 PROPERTY CASUALTY CONFERENCE CONTRIBUTING COMPANIES	
Auto-Owners Insurance Group	$54,856
Pioneer State Mutual Insurance Company	$17,270
Harford Mutual Insurance Company	$15,200
SECURA, A Mutual Insurance Company	$13,750
Norfolk & Dedham Mutual Fire Insurance Company	$12,904
Ohio Mutual Insurance Company	$12,500
Frankenmuth Mutual Insurance Company	$10,074
Mutual of Enumclaw Insurance Company	$9,622
Preferred Mutual Insurance Company	$9,264
CopperPoint Mutual Insurance Company	$9,080

TOP 10 FARM MUTUAL CONFERENCE CONTRIBUTING COMPANIES	
Fairmont Farmers Mutual Insurance Company	$5,450
Farmers Protective Mutual Insurance Company	$5,050
Germania Farm Mutual Insurance Association	$5,000
Friends Cove Mutual Insurance Company	$4,200
Heartland Mutual Insurance Association	$3,000
Farmers Mutual Insurance Association of Hull	$3,000
Mound Prairie Mutual Insurance Company	$2,500
Western Iowa Mutual Insurance Association	$2,500
Municipal Mutual Insurance Company	$2,500
RVOS Farm Mutual Group	$2,250
NAMIC Staff Contribution	$28,479

To see the full list of Summer Movers & Shakers, visit NAMIC.org.

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Author's name, title, company name, phone number, and email address should be included. Letters may be edited for length and clarity.

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NAMIC
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Drones' Next Frontier

MORE THAN A YEAR INTO ITS ADVOCACY REGARDING DRONES, NAMIC HAS SET ITS SIGHTS ON PRIVATE AIRSPACE RULES AND THEIR IMPACT ON MEMBER COMPANIES.

MATT BRADY

With the emergence of any new technology comes the struggle between ensuring safety and fostering development. NAMIC members often find themselves on both sides of that struggle as they make use of the technology and help policyholders recover when their use of that technology goes wrong.

The booming unmanned aerial systems industry, more commonly known as the drones industry, is one of the most recent examples of this conundrum. Because of the regulatory complexities that surround drones, NAMIC established itself as a leading role in conversations on behalf of its members.

NAMIC began its advocacy work before commercial use of drones was technically legal. Those initial efforts focused on establishing a safe space for the aircraft in the national airspace and economy as well as NAMIC member companies' use of drones for insurance business purposes.

One of the key benefits in insurance-business-purpose area is that drones can go where people can't – or shouldn't – during a disaster. That ability has great potential to speed up the claims processes for disaster victims. But when the Federal Aviation Administration established rules for drone use, that potential was hampered by requirements to keep drones in the line of sight of the operators and to prohibit drones from flying over people.

With those hindrances in mind, NAMIC staff worked with lawmakers to include language in FAA reauthorization legislation that called for the establishment of a system that would allow insurers to send drones into disaster areas still considered unsafe for people if approved by an on-site authority. While drones likely couldn't conduct detailed inspections in these cases, the ability to make an initial assessment of damage or verify the complete destruction of a structure could speed the claims process and provide funds more swiftly to victims. That legislation was passed by Congress in July 2016 and signed into law by former President Barack Obama.

Most recently, however, attention has turned toward NAMIC member companies' roles as insurers of the technology, and particularly one of the more unsettled areas – privacy.

Not only did the FAA's regulations open the skies to drones, they expanded what "skies" mean. Under the rules, private airspace has been effectively eliminated. In NAMIC's "Unmanned Aircraft: Defining Private Airspace" white paper released in March, **Tom Karol**, NAMIC's general counsel for federal affairs and drone expert, notes how the FAA's decision to reject the concept of private airspace has drastically changed property rights and exposed virtually every American's back yard to unwanted drone intrusion.

"You have the legal right to have your neighbor removed from standing in your front yard," Karol says. "You can have his dog removed or keep his tree limbs from growing over your yard. But under the FAA's definition of 'navigable airspace,' you can't stop a drone from flying over your property, even at a low altitude. It may be a federal crime to try."

Historically, according to Karol, common law doctrine had stated that ownership of land extends to the periphery of the universe, with owners said to own the land, everything below it, and all of the airspace "up to the heavens."

The Supreme Court dealt with this issue for airplanes by establishing a "floor" under which planes can't fly. But for drones, Karol says, the FAA has asserted that "navigable airspace" is any space that is not indoors. Given the legal principle that people are legally allowed to see whatever they see from any place they are legally allowed to be, drones could theoretically violate someone's privacy while staying within the FAA rules.

This is bound to cause disputes that will end up in courts across the country. As the "Unmanned Aircraft: Defining Private Airspace" white paper reports, there have already been "several widely reported incidents of property owners shooting UAS and at least one case proceeding through the courts in which the

UAS owner is suing the landowner and the landowner is alleging trespass.

"If this matter is left to the various federal, state, and local courts," the white paper continues, "there will be a wide variety of resulting standards, requirements, liabilities, and defenses. Failure to acknowledge and address the issue of private airspace ownership will leave this issue to the uncertain and piecemeal process of litigation, both criminal and civil, to wind its way through various courts.

"More than any other process, this will result in a case-by-case, uncertain environment that hinders the commercial applications of UAS and the ability of insurance companies to use and provide adequate coverage for policyholders," the white paper goes on to say.

While the FAA has not yet taken action, many state and local governments have stepped in, creating a patchwork of privacy rules and standards that could undermine the development of commercial drone technology and usage and will likely be the subject of litigation.

NAMIC is closely following the issue and is actively working with the FAA and members of Congress. The association has taken the position that there is a need for clarity, that the right of private airspace should be restored, that continuity and consistency of regulation should be ensured, and that the FAA needs to realign its posture to reflect established legal precedent.

In April, during an appearance on Fox News' "Tucker Carlson Tonight," Karol proposed a 200-foot floor for drone flights over private property as means to ensure respect for property rights and privacy without unduly limiting the potential development of drone technology.

Conversations with federal officials, lawmakers, and industry have coalesced around NAMIC's proposal, and the association continues to pursue efforts on Capitol Hill to urge Congress to define the limits of national airspace.