NATIONAL ALLIANCE OF LIFE COMPANIES
An Association of Life and Health Insurance Companies

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Submitted Via Email

Jason Lapham, Chair
Third Party Data and Models (H) Working Group
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1500
Kansas City, MO 64106-2197

Re: Risk-Based Regulatory Framework for Third-Party Data and Model Vendors

Chairman Lapham:

This comment letter is submitted on behalf of the National Alliance of Life Companies (NALC). We welcome the opportunity to comment on the Working Group's Risk-Based Regulatory Framework for Third-Party Data and Model Vendors exposure draft (the "Exposure Draft").

The NALC is a national trade association whose members include smaller, mid-sized and specialty life and health insurers. The NALC was formed in 1992 to address concerns that existing trade associations were not adequately representing the interests of member companies and their policyholders. Unlike many larger life insurers, NALC members serve regional markets and specific demographics, including working-class families, rural communities, and small business owners. Our members and their policyholders depend upon regulatory frameworks that are appropriately scaled, do not create artificial barriers, and preserve competitive market dynamics.

We appreciate the work that the Working Group and other NAIC committees are doing to develop regulatory frameworks applicable to insurance carrier use of AI and advanced analytics. The NALC supports regulators having the tools they need to ensure that insurance companies' use of AI Systems complies with applicable state insurance laws and regulations.

It is vital that those tools reflect a balanced, risk-based approach that create the conditions for continued innovation in this area and ensure a level playing field that does not disproportionately disadvantage smaller and specialty carriers. This balanced approach was a primary reason for the NALC's strong support for the *NAIC Model Bulletin: Use of Artificial Intelligence by Insurers* ("Model AI Bulletin"), which we view as the cornerstone for development of future frameworks related to insurer use of AI.

Smaller and Specialty Life Insurance Carriers Serve a Vital Market Role

Our members are critical to innovation and the stability of the U.S. life insurance market, serving specialized customer segments, under-served markets, providing competition that benefits consumers, and maintaining the diverse, resilient market structure that state-based regulation was designed to protect. The continued development of AI-powered business solutions is of vital interest for these carriers, whose long-term competitive viability depends upon having continued access to the transformative technologies that are only beginning to drive change in the insurance industry.

Unlike larger carriers with substantial R&D budgets, NALC members do not typically have the personnel or resources needed to develop these types of digital technologies in-house Our members specialize in ensuring the financial security of American families, and rely heavily upon the existence of a stable, healthy technology

solutions marketplace made up of a diverse range of vendors to deliver next-generation AI powered solutions and advanced analytics capabilities for a reasonable cost. The development of a regulatory framework focused on third party vendors is therefore of critical importance to NALC members and similarly situated companies.

While the NALC supports the Working Group's primary objectives, we have significant concerns that the framework described in the Exposure Draft would have the opposite of the intended effect and materially and disproportionately disadvantage life and health insurers. Those specific concerns are outlined below.

The Exposure Draft imposes a "one-size fits all" approach to all models, data, governance and vendor relationships that conflicts with the risk-based based approach utilized in the *NAIC Model Bulletin: Use of Artificial Intelligence by Insurers* ("Model AI Bulletin").

The risk-based approach in Model AI Bulletin scales regulatory obligations based on the actual risk associated with specific AI Systems. The Exposure Draft applies broad registration and governance requirements on third party vendors and insurers *regardless* of risk. Many of the problems with the Exposure Draft can be traced to this departure from the Model AI Bulletin. It is essential that every element of the NAIC's regulatory approach to addressing insurer use of AI and advanced analytics reflects the Model AI Bulletin's risk-based approach. We encourage the Working Group to consider incorporating risk-based elements such as materiality thresholds, risk-tiered requirements, and regulatory requirements that distinguish between small start-ups and large platforms that pose higher risk.

The Exposure Draft's framework would materially disrupt technology-driven innovation in insurance.

While some large, established technology firms provide AI-powered solutions to life insurers, the reality is that the insurtech landscape has for years been overwhelmingly made up of small, early-stage startups. According to an article from CB Insights published in October announcing its *2025 Insurtech 50 List* of the world's most promising insurtech startups, 60% were early stage (a 20% increase from 2024), and "nearly three-quarters … were not even in business at the start of the decade." The data reveals a fundamental reality: **The future of insurance technology will not come from large incumbent technology companies—it will come from the hundreds of small startups experimenting with new approaches to underwriting, claims, distribution, and customer service.** The Framework threatens to sever this innovation pipeline entirely.

Every successful technology firm, no matter its size today, began as a startup. State regulation of AI systems must ensure that the conditions needed to sustain continued growth and innovation remain stable and accessible to carriers of every size.

The Exposure Draft's multi-state registration, documentation, governance and audit requirements create an artificial barrier to entry for the vast majority of startups who's economic and business models are unprepared for the regulatory compliance costs that are being proposed. We believe that many smaller vendors and their investors would simply exit the market and redeploy their technology to other commercial opportunities rather than absorb these costs.

Only large, well-financed technology companies would benefit from this disruption. Consolidation would significantly reduce the number of available vendors, particularly those serving regional or niche markets like smaller insurance carriers. Fewer vendors would result in higher prices, eliminating cost effective solutions. Fewer vendors would also impair innovation while increasing the likelihood of systemic concentration risk among a few remaining large vendors.

Reduction in the number of vendors would prejudice life insurers of every size, resulting in higher costs and fewer alternatives. Smaller and mid-sized life insurers would be particularly hard hit given their limited leverage to negotiate favorable vendor terms. Many life insurers will find taking advantage of the growth potential associated with increased use of AI cost-prohibitive, making these carriers even less competitive. This would leave consumers with fewer choices. This easily foreseeable result directly contradicts state insurance regulators' longstanding policy of promoting competitive insurance markets across a variety of company sizes and market focus.

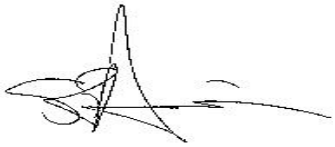
Restricts Access to Innovation.

Life insurers of every size rely, particularly smaller carriers, rely heavily on third-party vendors to access advanced analytics, underwriting models, and digital distribution capabilities that they cannot develop internally. The Exposure Draft will prevent these insurers from adopting innovative technologies by driving price increases and increasing regulatory costs. Over time this will result in a two-tiered market where some of the largest insurers will able to access cutting edge AI, while smaller carriers are forced to rely on dated technology that will make them far less competitive. This will limit the ability to serve underserved markets or offer specialized products, harming consumers by reducing competition, limiting product innovation, and decreasing availability in underserved markets.

Conclusion

Thank you for the opportunity to submit our comments. We look forward to engaging with members of the Working Group as work on the Framework continues.

Respectfully Submitted,



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cc Scott Sobel, NAIC