STATEMENT

OF

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BEFORE THE

INTERNATIONAL TRADE COMMISSION

GLOBAL DIGITAL TRADE I: OPPORTUNITIES AND KEY FOREIGN TRADE RESTRICTIONS

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The Property Casualty Insurers Association of America (PCI) is composed of nearly one thousand insurers and reinsurers that provide virtually every form of property and casualty insurance and reinsurance in the U.S. and around the globe. Individuals, families, nonprofits, businesses and governments rely on the financial security that is provided by PCI member companies. Insurers and reinsurers in return rely on data to predict risk of loss, price for risk of loss, provide compensation in the event of loss and help individuals and communities identify and reduce their risk of loss.

For these reasons, PCI appreciates this U.S. International Trade Commission work stream and is pleased to provide these comments. PCI is also a member of the Coalition of Service Industries (CSI) and we fully support their comments.

Data Is Essential to the Business of (Re)insurance.

Insurance is a unique product where a price is charged today but the actual cost of providing the product (compensation in the event of a covered loss) is not known until tomorrow, or next year, or the next decade. Accordingly, data to help predict risk of future loss has always been critically necessary to (re)insurance from the earliest days of insurance on shipping to today’s highly diverse market where coverage is provided for an almost limitless variety of the risk exposures of institutions, societies, families and individuals. Using data to accurately price for risk is fundamental to the business of insurance and for providing (re)insurance companies with the predictability they need to invest their capital. Of course, data is also needed to: respond to service expectations of customers, identify gaps in coverage, prevent fraud and assist in more rapid and fair claims settlement.

To the extent (re)insurers are able to use data to perform business functions, the more (re)insurance can be efficiently written and the more premiums written means there are more funds available to be invested in infrastructure with its many public benefits. And a robust, financially sound and competitive insurance market also enables private sector manufacturers, producers, shippers and sellers to maximize their commercial activities.
(Re)insurers’ Use of Data Also Has Many Social Benefits.

Accurate identification and pricing of risk sends important financial signals to insureds about the nature of their risks. For example, drivers with a history of accidents or law violations pay more than other drivers and quickly learn that abiding by the laws and avoiding accidents allows them to pay less for insurance. Likewise, employers learn about their risks when their premiums are higher when compared to their peers, due to comparatively unsafe working conditions.

Insurers use data to inform, educate and work with their insureds and the public to identify risk of loss and take actions to reduce it. PCI’s website, and that of virtually every (re)insurer, includes extensive information on how to reduce the risk of loss from everything from motor vehicle collisions to natural disasters. (Re)insurers also provide specific loss prevention expertise to commercial insureds thereby preventing losses and reducing their premiums. And (re)insurers provide information to communities on their resilience based on complex data-driven models. Insurance data is also used to help improve building and car designs and enact better highway and workplace safety laws so as to prevent damage and loss of life.

Finally, better data helps enable the provision of more inclusive insurance. Micro-insurance, for example, often depends on insurers being able to use new data and information technology to provide coverage to millions more people.

Despite the Many Benefits, International Barriers Abound.

One critically important type of barrier is composed of rules requiring local cessions of reinsurance. In order to keep financial resources on shore (clear protectionism) an increasing number of countries are discriminating against foreign reinsurers through mandatory cessions to local reinsurers. This has the effect of also keeping all of the risk onshore, where a single natural catastrophe could wipe out the entire sector in those countries. On the other hand, international reinsurers globalize the risk, thereby providing systemic stability locally and internationally.

Another form of increasing protectionism, somewhat more disguised, is composed of data localization requirements. These mandates inhibit the ability to perform activities that are essential to the insurance business such as human resources functions and that are socially beneficial, such as risk based pricing. In addition, requiring companies to maintain data in multiple locations actually increases the risk of data breaches.

A third form of barrier is composed of unreasonable mandates under the rubric of data privacy. Insurers can comply with balanced, non-discriminatory privacy protections, if they are consistent with being able to perform necessary business functions and socially beneficial functions, such as risk based underwriting. On the other hand, privacy laws can effectively deny insurers access to information needed to assess risk, which ultimately results in less clear signals about risk and unfair subsidies paid by better risks. As one of our companies commented: “We’re not going to abuse data, or sell it to third parties who might. We keep it confidential in our systems and process it as necessary in the context of
coverage and claims and for compliance matters such as money laundering and sanctions checks. We recognize the importance of policies, procedures, and systems and human controls.”

A fourth form of barrier is composed of mandates dictating how, and with what technology, insurers may use data. The effect of such mandates is to defeat savings from economies of scale and potentially provide inappropriate access to sensitive personal information.

Yet another form of barrier is composed of overly prescriptive and inconsistent mandates on data breach notification and response. Our members have a track record of successful efforts to protect the large volumes of personal and business data that their policyholders entrust to them. They clearly understand the importance of robust data protection, so the growth of inconsistent data breach notification and response requirements is unnecessary and will be counterproductive in terms of added costs to comply, and legal exposure if a mistake is made.

One of our members also expressed concern over the growing web of international financial sanctions which are making compliance in the context of international business far more difficult. Inconsistent application of sanctions arbitrarily creates winners and losers in the market and increases the likelihood of an inadvertent error leading to severe punishment.

Finally, we need to remain vigilant to prevent new barriers from being erected, especially between major (re)insurance markets. Examples of this concern would be any new barriers between the U.S., EU, Switzerland and/or a post-Brexit UK.

Conclusion

Access to, and use of, data are fundamental necessities for providing (re)insurance coverage. This coverage in turn supports other sectors in the economy and also provides significant social benefits. Nonetheless, we are witnessing an alarming growth of protectionism masquerading as good public policy. Accordingly, PCI looks forward to working with U.S. ITC on these matters of critical importance to us and to the public we serve.

Respectfully submitted,

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