

## The LIAJ comments on Public Consultation on draft Application Paper on the supervision of artificial intelligence

Question	Comment
<p>Q23. Comments on Section 5.3 Explanations adapted to the recipient stakeholders</p>	<p>The Life Insurance Association of Japan (the “LIAJ”) appreciates the opportunity to submit public comments to the International Association of Insurance Supervisors (the “IAIS”) on the public consultation on Draft Application Paper on the supervision of artificial intelligence.</p> <p>Regarding the statement in paragraph 70 “Different stakeholders require different types of explanation, since not all stakeholders have the same technical knowledge or the same reason for seeking the explanation, nor do they require the same level of detail”, the LIAJ agrees that the required granularity and types of explanations should differ depending on the knowledge and needs of the stakeholder.</p> <p>Particularly for consumers as they have different levels of understanding and needs of information, it is important to provide information on which areas AI is used and to consider their individual circumstances so as not to impede their appropriate decision-making. Given this, the statement “This information should be no less detailed than that provided for decisions not based on AI” should be revised as “Whether AI is used, the information requested by the customer should be explained, and the explanation should be conducted in a customer-oriented manner. The use of AI should not be an excuse to provide biased or overly specialized explanation, which would impair the comprehension of the customers.” Also, the LIAJ proposes the IAIS to insert the phrase “When customers request additional information on the use of AI,” before “an example is potentially providing policyholders with a clear breakdown of the factors that have influenced their premium calculations” on the basis that information on which areas AI was used should be provided to the customers, but the level of detail on the additional information should be considered depending on the customer’s level of understanding and needs.</p>
<p>Q31. Comments on Section 6.7 Societal impacts of granular risk pricing</p>	<p>It is undeniable that risk-based pricing using AI has contributed to financial inclusion. For example, there used to be cases where life insurers rejected insurance policy applications to avoid uncertainty because of the insufficient accumulation of data on customers’ health and the insufficient ability to use such data for underwriting purposes. However, the recent accumulation of data on health conditions within society and insurers, and the resulting development in the ability to reflect the health risks on insurance pricing, has enabled insurers to underwrite some policies that would otherwise have been rejected by applying special conditions. The benefits of using AI, i.e. contribution to financial inclusion, should therefore be noted as well as the disadvantage of AI that leads to discriminations by being applied to risk-based pricing.</p> <p>Given this, the LIAJ would like to suggest adding the following paragraph before paragraph 93:</p> <p>“Risk-based pricing using AI has a positive aspect as it has contributed to financial inclusion. For example, there used to be cases where life insurers rejected insurance policy applications to avoid uncertainty because of the insufficient accumulation of data on customers’ health and the insufficient ability to use such data as a condition for underwriting. However, the recent accumulation of data on health conditions in society and insurers, and the resulting</p>

development in the ability to reflect the health risks on insurance pricing, has enabled insurers to underwrite some policies that would otherwise have been rejected by applying special conditions.”

The LIAJ supports the IAIS's emphasis on DEI and financial inclusion, and we concur with the recognition of the issue and the need for action outlined in paragraph 95, which states that “certain groups (e.g., low-income households, minorities) may face higher premiums due to intergenerational inequalities that can influence location or health conditions.” On the other hand, we believe that the proposed mitigation measure of banning the use of certain risk factors for pricing purposes should be carefully considered.

As the LIAJ stated in the comment on the IAIS's draft Application Paper on how to achieve fair treatment for diverse consumers, risk-based premium setting is a fundamental principle that underpins the financial soundness of insurance companies. If this principle were to be restricted, it would require appropriate justification. However, paragraph 95 does not address key issues such as “what specific risk factors are to be banned” or “at what level of segmentation would cause an issue” nor does it provide clarity on the nature of the banned risk factors and the degree of segmentation that would be considered problematic. Given the absence of such explanations, we believe that the use of risk factors should not be restricted or banned hastily. Therefore, we suggest the phrase “banning the use of certain risk factors for pricing purposes” in paragraph 95 be reconsidered and removed.

The challenge on consumer protection stated in paragraph 95 is not consistent with the possible mitigants. The challenge set out in this paragraph can be interpreted as to whether differential pricing based on non-risk-based factors, such as new and existing customers, is reasonable. Therefore, the essential and effective solution would be to ban insurance pricing based on arbitrary and unfair factors that are not risk-based. The statement “Ban differential pricing, facilitate easier policy cancellations and/or restrict price optimisation techniques used by insurers” might not convey this message accurately.

As for “banning differential pricing”, only arbitrary and unfair differential pricing that is not risk-based should be banned, rather than differential pricing in general. Particularly in life insurance, once policyholders cancel their policy, it is likely that policyholders cannot repurchase a new policy with the same benefits as the initial contract due to aging, changes in their health conditions and assumed interest rates. For that reason, a thoughtless cancellation of a policy may be detrimental for policyholders, and the proposal to “facilitate easier policy cancellations” without stating the consequences on the disadvantages of cancellations would be misleading. Given the above, the statement “Ban differential pricing, facilitate easier policy cancellations and/or restrict price optimisation techniques used by insurers” could, for example, be revised as “Ban unfairly differential pricing not based on risk and/or restrict arbitrary price optimisation techniques used by insurers”.