

Preliminary Comments of the American Property Casualty Insurance Association
on
National Climate Resilience Strategy for Insurance

The American Property Casualty Insurance Association (APCIA) appreciates the opportunity to submit preliminary comments on the National Climate Resilience Strategy for Insurance. There is much in the document with which we agree and we are pleased to provide the following comments for your consideration in the spirit of improving the final product and addressing some concerns.

Taking a More Holistic View

The document would strongly benefit from a more holistic view of the causes and solutions of natural catastrophe protection gaps. As written, the document gives rise to the impression that protection gaps are solely created by insurers and insurance regulators and can be solved solely by insurers and insurance regulators. In reality, the protection gaps are largely the result of losses from extreme weather, recent unprecedented inflation and society-wide choices such as poor building and land use practices, all of which are not under the control of insurers or insurance regulators.

The losses which create the protection gaps make up the vast bulk of every premium dollar and are caused by extreme weather but also by the migration of people and assets into vulnerable areas and the failure to mitigate the losses through, for example, better building and land use codes and practices, and actions by individuals. Language should be added on this point in the introductory language and at the beginning of the closing protection gaps and mitigation sections.

The document should include a comment about the importance of cooperation between regulators and insurers. This cooperation is fundamental to success and in fact is occurring in many ways including our support for the natural catastrophe model center of excellence in CIPR and our cooperative work on the climate risk disclosure survey revisions and their implementation.

The plan should also include language on an enabling regulatory environment. An enabling regulatory environment supports innovation in new products, such as parametric insurance, and allows for risk based pricing and other regulatory aspects that encourage the greatest commitment of capital and thereby maximizes affordability and availability.

Below are comments on specific sections:

Action 1. Close Gaps

As the general comments above indicate, a much more holistic view of the origins and solutions of protection gaps should be provided as an opening sentence. We suggest the following: “Protection gaps result first and foremost from losses and the inability to manage those losses. Accordingly, while insurers and insurance regulators have a role to play, closing protection gaps will require much broader society-wide commitments and action.” We also request the addition of the following: “Regulators

should foster innovation and competition so that insurers can better meet the needs of consumers and reduce or close protection gaps.”

Action 2. Flood insurance Blueprint

We urge the addition in this section of reforms to NFIP and actions to support more private flood coverage. Such language might read: “Advocate for the long-term reauthorization of NFIP and support risk-based pricing in NFIP. Foster the growth of the private flood insurance market through an enabling regulatory system.”

Action 3. Comprehensive Data

While data is important, there are always costs to provide it, so we ask for a cost-effective approach to data mandates. We have submitted comments to the NAIC and FIO on the proposed data collection and request that they be reflected in any data collection discussion.

Action 4. Risk Mitigation

Mitigation is a shared responsibility that includes, but extends far beyond, insurers and insurance regulators. Accordingly, we suggest an opening sentence along these lines: “While insurers and insurance regulators have a role to play, effective mitigation of the risk will require society-wide commitments and actions, such as strong building and land use codes and practices, updated infrastructure and the application of nature-based solutions.”

Action 5. Test Scenarios

The recommendations made in this section need significant additional discussion and collaboration between the NAIC, the states, and the industry. The actions this section proposes are very wide-ranging, and the performance of scenario analysis is very costly. Any requirements for scenario analysis by insurers should be for the purpose of solvency regulation and not designed to pursue other aims. They should also be proportional to the climate risk actually faced by individual companies. As excessive costs imposed by these recommendations will be borne by consumers and may therefore contribute to the protection gaps this strategy seeks to close, any requirements should be carefully crafted and limited to the achievement of their solvency regulatory purpose.

Additional Suggestions

Page 3: *(typo and add'l suggestions)*

Our NAIC National Climate Resilience Strategy prioritizes pre-disaster mitigation because protecting insurance consumers begins long before a wildfire starts or a hurricane makes landfall. We are not starting from scratch. Several strong examples exist among our member jurisdictions. The California Safer From Wildfires program, for example, provides premium incentives for reducing wildfire risk through individual and community home hardening and defensible space, while the Strengthen Alabama Homes Program provides grants to homeowners to retrofit properties based on the Insurance Institute for Business and Home Safety (IBHS) Fortified~~FORTIFIED~~ standard. Earlier this year, the state of Minnesota passed a similar law requiring incentives for homes that meet the Fortified~~FORTIFIED~~ standard, demonstrating the regional diversity of such approaches.

Page 4: *(typo)*

Mitigating the risk of severe weather and wildfire is essential for the safety of families and communities. Research shows Americans are not powerless – there are known, effective actions that home and business owners can take now to reduce their risk and help break the cycle of damage, disruption, and dislocation all too often associated with these natural perils. In parallel, IBHS will continue to work with the NAIC to inform and educate regulators and policymakers as they also work to bend down the risk curve and foster healthy insurance markets.”

Roy Wright, President and Chief Executive Officer, Insurance Institute for Business ~~and~~ Home Safety

Page 4: *(suggestions for grouping of common peril types)*

The Climate and Resiliency Task Force of the Executive Committee is launching this strategy to bring together the products of existing workstreams into an enduring strategy that promotes resilient insurance markets in all US jurisdictions. The actions in this document will address the local risks, including flooding, extreme heat and cold, wildfires, ~~hail~~, convective storms *(i.e., tornadoes, hail)*, *extreme precipitation (i.e., atmospheric rivers, drastic snowfall)*, and hurricanes. Insurance regulators have the role and responsibility for ensuring stable, competitive marketplaces and financially solvent carriers. Two crucial parts of this role are to make sure that insurance companies have the financial resources to make good on their promises to pay claims and to take steps to close insurance protection gaps.

Page 5: *(Earthquakes are not a climate peril, though the proposed sentence structure suggests so. Providing suggestions to correct.)*

This strategy will incorporate data from existing NAIC efforts. For example, the NAIC Property and Casualty Committee is creating a long-term framework for collecting more granular data from insurance companies related to climate-intensified wildfires, floods, ~~hailstorms~~, convective storms *(i.e., tornadoes, hail)*, ~~earthquakes, hurricanes~~, atmospheric rivers, and other events *(e.g., earthquakes)* to better understand property markets. The new data will inform the implementation of the National Climate Resilience Strategy. Additionally, the NAIC Center for Insurance Policy Research (CIPR) will be a key partner to implementation of this strategy.

Page 6: *(typo)*

The NAIC members will identify and coordinate the measurement of protection gaps, maintain a dashboard to understand where protection gaps are widening, evaluate policy options that have been attempted or considered, and measure progress in closing those protection gaps.

Page 8: *(Should highlighted word be among?)*

3H. Continue to expand NAIC advocacy for both increased federal investment in existing risk mitigation programs and tax parity **amount** federal and state risk mitigation programs to achieve more successful risk mitigation. The NAIC will continue to bring together examples of successful state-level mitigation programs as models for other jurisdictions.

Conclusion

We appreciate the opportunity to comment. Our recommendations and suggestions are intended to improve the document and emphasize the reality that while insurers and regulators have a role to play in closing protection gaps and in mitigating the risk, other stakeholders must also act. Please let us know if you have any questions.

Respectfully submitted,

Dave Snyder,
Vice President and Assistant General Counsel