

Draft: 3/31/21

Catastrophe Insurance (C) Working Group
Virtual Meeting (*in lieu of meeting at the 2021 Spring National Meeting*)
March 10, 2021

The Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met March 10, 2020. The following Working Group members participated: Mike Chaney, Chair, and Andy Case (MS); Brian Powell (AL); Ken Allen, Giovanni Muzzarelli and Lynne Wehmuehler (CA); George Bradner and Wanchin Chou (CT); Virginia Christy (FL); Colin M. Hayashida (HI); Travis Grassel (IA); Judy Mottar (IL); Heather Droge and Brenda Johnson (KS); Warren Byrd, Richard Piazza and Thomas Travis (LA); Matthew Mancini (MA); Joy Hatchette (MD); Cynthia Amann, Carrie Couch, LeAnn Cox and Jeana Thomas (MO); Timothy Johnson (NC); Mark McGill (NJ); Tom Botsko (OH); Cuc Nguyen (OK); David Dahl, Ying Liu and Van Pounds (OR); Elizabeth Kelleher Dwyer and Beth Vollucci (RI); Gwen McGriff and Will Davis (SC); David Combs (TN); Brian Ryder and Mark Worman (TX); and David Forte (WA). Also participating were: Vincent Gosz (AZ); Renee Campbell (MI); Chris Aufenthie (ND); Gennady Stolyarov (NV); and Donna Stewart (WY).

1. Adopted its Nov. 17, 2020, Minutes

The Working Group met Nov. 17, 2020, in lieu of meeting at the 2020 Fall National Meeting.

The Working Group also conducted an e-vote that concluded Nov. 23, 2020, to adopt its Oct. 29, Oct. 13 and Sept. 21, 2020, minutes (*see NAIC Proceedings – Fall 2020, Property and Casualty Insurance (C) Committee, Attachment Five*).

Mr. Byrd made a motion, seconded by Mr. Bradner, to adopt the Working Group's Nov. 17, 2020, minutes (Attachment XX). The motion passed.

2. Heard an Update Regarding Federal Legislation

Brooke Stringer (NAIC) said the National Flood Insurance Program (NFIP) is operating under its sixteenth short-term extension, which will expire Sept. 30, 2021. She said lawmakers are divided over issues, such as the role of the private flood insurance market, claims processing reforms and addressing affordability challenges. Congressional debates will likely factor in the new Risk Rating 2.0 initiative, as this initiative will revamp the way premiums are calculated.

Ms. Stringer said recent media reports indicate that the Federal Emergency Management Agency (FEMA) has told insurers that it will stagger the rollout of the new NFIP rates under Risk Rating 2.0. New rates will only take effect for new flood insurance policies beginning Oct. 1, 2021, while rates for existing policies will not take effect until April 1, 2022. Ms. Stringer said this has not yet been publicly confirmed.

Ms. Stringer said that during the last Congress, the U.S. House of Representatives' Committee on Financial Services approved a five-year reauthorization bill, but coastal state lawmakers objected to the bill and introduced an alternative bill. She said these lawmakers did not believe Chairwoman Maxine Waters' (D-CA) bill went far enough to protect policyholders from rate hikes. Neither bill proceeded further in the House, nor was there any focus on the NFIP reauthorization in the U.S. Senate. Ms. Stringer said Chairwoman Waters and U.S. Rep. Emanuel Cleaver (D-MO)—who is chair of the Subcommittee on Housing, Community Development, and Insurance—indicated that a long-term reauthorization of the NFIP is one of the priorities for the new Congress. It is unlikely that the Senate Committee on Banking, Housing, and Urban Affairs will prioritize reauthorization until it gets closer to the expiration of the current short-term reauthorization. The NAIC will continue to urge support for a long-term reauthorization that prioritizes mitigation and encourages private market growth.

Ms. Stringer said FEMA has continued to purchase reinsurance to cover losses for the NFIP and transfer more risk to the capital market. She said the February transfer, combined with some of the previous capital market placements and the January reinsurance placement, FEMA has now transferred a more than \$2.9 billion of the NFIP flood risk to the private sector ahead of the 2021 hurricane season.

Ms. Stringer said that in November 2020, the U.S. Department of Housing and Urban Development (HUD) published a proposed rule to change Federal Housing Administration (FHA) regulations to allow lenders to accept private flood insurance policies on FHA-insured properties located in special flood hazard areas (SFHAs). The FHA's current rules have prevented

buyers with FHA-insured mortgages from obtaining flood insurance through any source other than the NFIP. In 2019, the federal banking regulators finalized their rule for acceptance of private flood insurance.

Ms. Stringer said the proposed rule would amend FHA regulations to include the definition of “private flood insurance” from the federal Biggert-Waters Flood Insurance Reform Act of 2012. It includes a “compliance aid” allowing mortgagees to accept private policies, without further review, where the policy or an endorsement includes the language that it meets this definition of private flood insurance laid out in the rule. The proposal differs from the federal banking regulators’ private flood rule, particularly because it would not allow discretionary acceptance of other types of private flood insurance policies, including residential surplus lines policies.

Ms. Stringer said the NAIC submitted a comment letter in January 2021 encouraging HUD to further align its rule with the banking regulators and providing information on the regulatory regime for surplus lines insurance. She said, with the change in administration, it is unclear yet if HUD will continue to pursue such a new rule. Ms. Stringer will keep the Working Group apprised of updates.

3. Heard a Presentation from Q-risq Analytics

Q-risq Analytics (Q-risq) showed a short video. This video described an operational solution it has developed for forecasting address-specific wind and storm surge risk using geospatial analytics engines developed for federal, state and local emergency managers.

According to Q-risq, its product helps answer the following questions: 1) Who will be affected by the approaching storm surge and tropical winds? 2) What will be the intensity of the surge and wind when the storm makes landfall? 3) When is the impact of the approaching storm expected to begin? 4) Where should the most experienced personnel be deployed prior to landfall for the quickest response time? and 5) How will the storm affect individual property owners and the community as a whole?

The Q-risq team consistently monitors a storm’s track, the wind intensity and surge risk area days prior to a storm. This information can be used to contact property owners, municipalities and government entities via text message, email and/or voice calls to help them prepare for a storm’s effects and to help mitigate damage.

When received in advance, each address is geocoded with a precise latitude and longitude and entered into Q-risq’s secure client database and digitally represented in its program’s viewer. Each policy address is assigned an individual risk score based on its forecasted flood depth and its digitally derived ground elevation. Properties are then classified in one of four categories: 1) no risk; 2) low risk; 3) moderate risk; or 4) high risk.

Properties can be close to each other but assigned different risk levels. Q-risq’s proprietary wind and storm surge model results are layered over ground elevations. Customized assessments are built for each property. Properties that sit higher will not be as affected by a given amount of water. As seen with 2020’s Hurricane Laura Q-risq’s proprietary wind model Q-winds color codes the storm’s four-quadrant wind vortex according to maximum velocity. Updated with each National Hurricane Center (NHC) advisory, each property is then classified according to its forecasted wind risk.

In addition to client-specific policies in force, Q-risq also ingests community addresses to provide impact assessments to federal, state and local governments, aiding and preparing proportionate levels of staging and response teams. Well before landfall, Q-risq’s supercomputer uses real-time storm information to perform billions of calculations on hundreds of terabytes of data to calculate an ensemble of storm impact possibilities. This information is processed against the previously geocoded properties to determine community exposure for both surge and wind. Once the storm has made landfall, Q-risq focuses on creating a hindcast report of the storm’s impact. Maximum storm surge, sustained winds and accumulated rainfall are displayed in a spreadsheet for each location. The Q-risq team is committed to improving the ability to reach out to homeowners, public assistance applicants and emergency management personnel with the most advanced technology available.

Scott Bolton (Q-risq) said Q-risq essentially runs storm surge and wind velocity models prior to a storm making landfall. He said the data is then made available to individual addresses that are geocoded with a latitude and longitude, making the data specific to these individual addresses. Mr. Bolton said the dashboard in the Q-risq program also shows the overall impact to the customer. He said Q-risq is in the process of developing an app that provides data relevant to each address; this app provides updates every six hours as the NHC issues new advisories.

Mr. Bolton said, in a post-storm analysis, Q-risq does validation using National Oceanic and Atmospheric Administration (NOAA) and U.S. Geological Survey (USGS) observations, allowing Q-risq to match its model to actual observations after the storm. He said this allows Q-risq to provide the information to municipalities, the federal government or to individual insurance companies to help validate what actually took place at specific addresses and help to expedite the closing of claims.

Mr. Case said Q-risq contacted the Mississippi Insurance Department (MID) last fall regarding its product and gave the MID the opportunity to use the product with Hurricane Zeta. He said a policyholder was denied coverage due to the fact Q-risq believed the damage to some of the properties was flood-related. Mr. Case said the MID worked with Q-risq and, within a day, there was a report with the data needed to show it was not a water loss, but in fact a wind loss, and the insurer reversed its decision.

Mr. Bradner said one of the concerns he would have regarding having individuals access this data and monitor the storm as it approaches is that individuals may think they are out of harm's way according to the product and not evacuate when it might be necessary. He also asked how this related to Hurrevac, as many municipalities use Hurrevac to monitor and identify a storm path and where properties may be in harm's way.

Mr. Bolton said Q-risq is using data issued by the NHC, so it is not doing predictive tracking. He said if there is a mass evacuation, Q-risq not contradicting this; it is simply producing a high-resolution model. Mr. Bolton said the Q-risq model does not just show an area that is going to receive an 8-to-10-foot storm surge, but how that surge is going to specifically impact an individual's address with a surge above ground, not just above the sea level.

Elizabeth Valenti (Q-risq) said the Hurrevac product uses a storm surge model called SLOSH (Sea, Lake and Overland Surges from Hurricanes), which is a generalized model. Q-risq runs its model on a supercomputer, and it takes a couple of hours to run because Q-risq's resolution is much higher than the SLOSH model. She said Hurrevac provides a general forecast, whereas the Q-risq tool provides a property-specific forecast, using light detection and ranging (LiDar)-derived digital elevation models. She said Q-risq takes the government products and post-processes them into the private market specific-use case.

Mr. Bradner asked if the new app is available for all jurisdictions or limited jurisdictions.

Ms. Valenti said the product works for all North American Atlantic basin, which includes the Eastern seaboard and the Gulf Coast for North American land-falling hurricanes.

Mr. Bolton said Q-risq has two different products. He said one is wind velocity and the other is storm surge. Mr. Bolton said storm surge is relative to a mesh, and a mesh is dictated by elevation. He said 10 meters above a mean sea level and 10 meters below a sea level are surge area and the wind velocity goes as far inland as the NHC continues to issue advisories.

Mr. Bolton said, with its wind analysis in a hind cast, Q-risq can report the maximum wind velocity at a particular location, as well as the direction and duration of the event.

Mr. Bolton said RMS is doing so-called "predictive destruction," which Q-risq is looking into for its model. He said the Q-risq model currently does not include a prediction of damage ahead of landfall. Mr. Bolton said this is something Q-risq would like to produce, or possibly to work with modeling companies at some point in the future to provide. Mr. Bolton said if Q-risq is given coverage or the assessed value of an individual's address, it can show the risk level; however, it has not started working on a predictive model for destruction.

4. Heard Updates Regarding Recent Catastrophic Events

a. Mississippi

Mr. Case said the forecast models ahead of Hurricane Zeta showed it to be a Category 2 storm. He said these models were correct; however, the storm picked up speed as it made landfall and ended up being a lower-end Category 3 storm.

Mr. Case said there were roughly 24,000 residential property claims reported as a result of Hurricane Zeta, which resulted in \$108 million in payments. He said there were also a significant number of claims closed without payment. The damage from this storm were primarily roof claims. Due to actual cash value (ACV) payments with holdbacks for depreciation, as well as

named storm deductibles, payments were less than expected. Approximately 55% of the claims were closed without payment, meaning many policyholders did not have enough damage to reach their deductibles.

Mr. Case said, in addition to residential property claims, Mississippi had roughly 650 commercial property claims. These claims payments amounted to approximately \$5 million. Commercial property claims closed without payments were a little less than 50%.

Mr. Case said personal auto claims were somewhat surprising, as this was mainly a wind event. He said there were more than 5,000 personal auto claims reported, resulting in claims payments of \$24 million. Approximately 650 of these claims were closed without payment. Mr. Case said there were roughly 85 commercial auto claims reported, amounting in \$400,000 in claims payments.

Mr. Case said the only complaints the MID received stem from some large commercial loss claims. He said, for the most part, the claim response following Hurricane Zeta has been good.

Mr. Bradner asked if Mr. Case had a sense as to whether 2% or 5% hurricane deductibles were used.

Mr. Case said the MID saw a representative number of deductibles at both 2% and 5%. He said in talking to consumers, there were a number of them that were unaware that they could buy that deductible down, per Mississippi statute.

Mr. Bradner asked if Mississippi had a provision in its law about multiple hurricane events and deductibles.

Mr. Case said Mississippi does not have a provision in its law regarding multiple hurricane events and deductibles. He said this has been discussed, as both Louisiana and Alabama have had multiple hurricane events this year. Mr. Case said Mississippi will be looking at this issue.

b. Alabama

Mr. Powell said Alabama had three storms that affected the state severely in 2020.

Mr. Powell said Tropical Storm Cristobal was basically a rain event. The storm passed through the state and saturated the ground. Shortly following Tropical Storm Cristobal, Alabama experienced its first and second hurricanes. The saturation from Tropical Storm Cristobal was the cause of a lot of flooding.

Mr. Powell said Alabama saw a lot of costal and riverine flooding, but also experienced numerous trees falling due to the water saturation causing damage. The first hurricane did not cause a lot of wind damage; however, there was damage due to tree fall. Mr. Powell said the second hurricane was a wind event and mainly affected the central and northeastern part of the state. He said there are still a number of claims being filed due to the storm.

Mr. Powell said Alabama was faced with the deductible issue, as there is no mechanism to deal with multiple deductibles. He said there were parts of the state where insureds had significant damage to their homes or commercial business from the storm, and then a couple of weeks later another hurricane came through that did additional damage to the structures. Mr. Powell said Alabama is looking into a mechanism to deal with multiple deductibles, as it is going to be difficult for some policyholders to recover.

Mr. Powell said there were boats sitting in the middle of interstates and the state had problems finding the boats' owners. He said the insurance industry responded to this problem and were able to get the boats towed and then worked to handle the claims with the boat owners.

c. California

Ms. Wehmuller said Moody's identified the 2020 California wildfire season as having approximately 3 million acres burned, affecting 5,800 structures. This resulted in estimated losses of \$4.8 billion. Ms. Wehmuller said 2020 was less damaging than previous years in terms of insured losses; however, there were more acres burned. She said, in contrast, the insured damage for 2017 and 2018 combined was \$25 billion.

Ms. Wehmuller said the California Department of Insurance (CDI) Consumer Services Division assisted at approximately 16 local assistance centers to help insureds receive needed checks and contents advances, as well as to answer questions. Ms. Wehmuller said the CDI also did a demonstration for a virtual local assistance center due to the COVID-19 pandemic, so consumers could speak to Consumer Services Division representatives virtually. She said the CDI had a positive experience with the virtual local assistance center and will explore using virtual local assistance centers in the future.

Ms. Wehmuller said the COVID-19 pandemic caused travel restrictions, as well as consumer fears about being involved on an in-person basis. Due to this issue, attendance at the local assistance centers was not as high as expected, given the number of wildfires that occurred during the year. Ms. Wehmuller said the CDI is in continuous talks with the California Governor's Office of Emergency Services and FEMA to put in a plan for true virtual local assistance centers for future events. She said the CDI also used its Consumer Services Division hotline staff to assist consumers with insurance concerns.

Ms. Wehmuller said the CDI has kept its public website updated regarding wildfire resources that provide important notices the CDI has issued related to wildfires, as well as information regarding consumer rights and laws that specifically apply to the claims process. She said the CDI also has a Property Insurance Policy Locator tool, which helps survivors in the event that a property owner perishes in a wildfire. The legal representative may use the tool if the property is located in a declared disaster area.

d. Louisiana

Mr. Byrd said Louisiana experienced five storms in 2020.

The first storm experienced by Louisiana was Tropical Storm Cristobal. Residential losses were about \$12.3 million, while commercial losses totaled \$1.3 million. Mr. Byrd said a few months later, Hurricane Marco—which skirted the coast and was not declared a disaster—was, therefore, minimal in nature.

Mr. Byrd said, shortly after Hurricane Marco, Hurricane Laura hit. He said 170,000 claims resulted from this one storm. Residential losses totaled \$3.3 billion and commercial losses totaled \$3.4 billion, for a total of almost \$7 billion in insured losses from this one event.

Mr. Byrd said Hurricane Delta hit in October and was the fourth storm to hit Louisiana in 2020. This storm produced 72,000 claims and, to date, there have been residential losses of \$410 million and commercial losses of \$150 million.

Mr. Byrd said, later in October, Hurricane Zeta hit, resulting in approximately 49,000 claims and causing residential losses of \$230 million and commercial losses of \$270 million.

Mr. Byrd said Louisiana also experienced an ice storm in 2021, and they are still working thorough this event. He said he did not have data to present today, but Louisiana does not generally experience three to four consecutive days of subfreezing temperatures.

Mr. Byrd said Commissioner James J. Donelon (LA) issued Emergency Rule 45 because of Hurricane Laura claims. He said the main complaint received regarding Hurricane Laura was the multitude of adjusters or the changing of adjusters by carriers, which resulted in a failure to pay or a late payment.

Mr. Byrd said the Louisiana Department of Insurance issued two bulletins, the first one being Bulletin 2021-02, which extends the proof of loss time frame from the normal 60 days to 180 days in the event of a catastrophe. The bulletin also describes how to calculate replacement cost coverage, especially on a room. He said the second bulletin issued was Bulletin 2021-03, which charges the industry with the duty of good faith and fair dealing with their policyholders. It also entitles policyholders to obtain a copy of their policy if they ask for it.

e. Texas

Mr. Worman said Texas experienced a winter storm Feb. 11–19, 2021. He said this event affected all 254 Texas counties. Mr. Worman said once the storm hit, the Texas Department of Insurance (TDI) extended its consumer help line hours, started to develop consumer information specific to the event (e.g., information regarding how to file claims, frequently asked questions, etc.) and worked with the Texas Department of Emergency Management to disseminate this information.

Mr. Worman said the TDI has a storm resource page on its website. He said the TDI Public Affairs Department utilized social media to disseminate information to consumers.

Mr. Worman said the TDI issued several bulletins, just as it would after any catastrophic event. These bulletins reminded insurers of claims-handling deadlines and consumer protections related to underwriting, nonrenewals, credit scoring and other items. He said there are many policies that include provisions for freezing, so the TDI issued a bulletin regarding freezing. These items include the policyholder taking reasonable care to maintain heat or shut off water supply and drain pipes.

Mr. Worman said many things were beyond the control of the insured regarding this event, such as the frequency and length of power outages, that could have prevented many policyholders from maintaining heat in their homes. He said many consumers lost power for extended periods of time, while other consumers lost and had intermittent power. Mr. Worman said there are still consumers that do not have water. He said this bulletin was to inform insurers of the TDI's expectations, as well as to consider the severity and nature of these events and to consider these factors when adjusting these claims.

Mr. Worman said there are two data-collection efforts underway. He said the TDI has issued a claims survey to some of the top writers in the state, which represents approximately 87% of the residential market and 80% of the commercial property market. The claims survey allows the TDI to collect information quickly on a statewide aggregate basis and includes information from licensed insurers. Information includes items such as the number of claims reported, the number of claims paid at the end of the month, and the number of claims open at the end of the month. Mr. Worman said this information is reported quickly, so it can be reported to the legislature, as the legislature is in session and has expressed interest in this information. The first submission is due March 12.

Mr. Worman said TDI has also activated its Catastrophe Event Statistical Plan for Personal and Commercial Risks. He said the reason the TDI is doing two data-collection efforts is that the catastrophe statistical plan is used to gather detailed information by ZIP code and it is not just to collect data from licensed insurers, but it is also to collect data from surplus lines insurers. This effort takes a little longer. He said the catastrophe statistical plan was activated Feb. 26 and insurers are required to submit the first round of data by March 31. Insurers are required to file monthly thereafter.

Commissioner Chaney said the NAIC is creating a website that is intended to be a "one-stop shop" for state insurance regulators that will contain resources pertaining to catastrophes. The website will house everything from bulletins, to regulator resources, to consumer resources for regulators to use. The website will also have links to federal information regarding catastrophic events, such as FEMA resources. This information will be shared in more detail during the Property and Casualty Insurance (C) Committee meeting during the Spring National Meeting. As the NAIC posts this information, input and suggestions from state insurance regulators are welcome.

Having no further business, the Catastrophe Insurance (C) Working Group adjourned.

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