

Date: 4/1/22

Virtual Meeting

CATASTROPHE RISK (E) SUBGROUP

Tuesday, April 19, 2022

11:00 a.m. – 12:00 p.m. ET / 10:00 – 11:00 a.m. CT / 9:00 – 10:00 a.m. MT / 8:00 – 9:00 a.m. PT

ROLL CALL

Wanchin Chou, Co-Chair	Connecticut	Anna Krylova	New Mexico
Halina Smosna, Co-Chair	New York	Tom Botsko	Ohio
Robert Ridenour, Vice Chair	Florida	Andrew Schallhorn	Oklahoma
Laura Clements	California	Will Davis	South Carolina
Judy Mottar	Illinois	Miriam Fisk	Texas
Gordon Hay	Nebraska		

NAIC Support Staff: Eva Yeung

AGENDA

1. Consider Adoption of its Spring National Meeting Minutes—*Wanchin Chou (CT)* Attachment A
2. Consider Adoption of Proposal 2021-17-CR (MOD) (Wildfire Information-Only Reporting Exemption)—*Scott Williamson (Reinsurance Association of America—RAA)* Attachment B
3. Discuss the Independent Model Review Instruction in the Rcat Component—*Wanchin Chou (CT)*
4. Evaluate Other Catastrophe Risks for Possible Inclusion in the Rcat Component—*Halina Smosna (NY)*
5. Discuss Any Other Matters Brought Before the Subgroup—*Wanchin Chou (CT)*
6. Adjournment

Draft Pending Adoption

Attachment XXX

Capital Adequacy (E) Task Force

3/28/22

Draft: 3/28/22

Catastrophe Risk (E) Subgroup
Virtual Meeting (*in lieu of meeting at the 2022 Spring National Meeting*)
March 22, 2022

The Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group of the Capital Adequacy (E) Task Force met March 22, 2022. The following Subgroup members participated: Wanchin Chou, Chair, George Bradner, and Qing He (CT); Halina Smosna, Chair, Gloria Huberman, HauMichael Ying (NY); Laura Clements and Giovanni Muzzarelli (CA); Jane Nelson (FL); Judy Mottar (IL); Gordon Hay (NE); Anna Krylova (NM); Tom Botsko (OH); Andrew Schallhorn (OK); and Miriam Fisk, Monica Avila, and Rebecca Armon (TX). Also participating were: Adrienne Lupo (DE); Brock Bubar (ME); and Julie Lederer (MO).

1. Adopted its Feb. 22, 2022; Jan. 25, 2022; and Dec. 16, 2021, Minutes

Mr. Chou said the Subgroup met Feb. 22, 2022; Jan. 25, 2022, and Dec. 16, 2021. During these meetings, the Subgroup took the following action: 1) adopted proposal 2021-15-CR (Adding KCC Models), which the Subgroup exposed for a 30-day public comment period ending Nov. 26, 2021; 2) adopted proposal 2021-17-CR (Adding Wildfire Peril for Informational Purposes Only), which the Subgroup exposed for a 60-day public comment period ending Feb. 13, 2022; 3) received an update from the Catastrophe Model Technical Review Ad Hoc Group. The update included the discussion of the survey questions created by the members within the group, which were based on *Actuarial Standard of Practice (ASOP) No. 38—Catastrophe Modeling (for All Practice Areas)*; 4) discussed three different kinds of catastrophe models that deviate from the vendor models. The Subgroup will focus on discussing the vendor catastrophe models with adjustments or different weight first; 5) discussed the issue of double counting in the R5 component. The Subgroup asked the interested parties to review the current methodology and provide comments in the upcoming meetings; 6) discussed the possibility of adding flood peril in the Rcat component. Industry asked the Subgroup to consider the materiality issue with respect to whether the flood peril is warranted, given the exposure of the industry; and 7) heard a presentation from Milliman on the private flood market.

Mr. Botsko made a motion, seconded by Ms. Clements, to adopt the Subgroup's Feb. 22, 2022 (Attachment XXX); Jan. 25, 2022 (Attachment XXX); and Dec. 16, 2021 (Attachment XXX) minutes. The motion passed unanimously.

2. Discussed its Working Agenda

Ms. Smosna summarized the changes of the 2022 working agenda, which included the following substantial changes: 1) adding the exposure and adoption dates to the "evaluate the possibility of allowing additional third-party models or adjustments to the vendor models to calculate the cat model losses" item; 2) removing the "modify instruction to PR027 Interrogatories that clarify how insurers with no gross exposure to earthquake or hurricane should complete the interrogatories" item; 3) adding the adoption date to the "implement wildfire peril in the Rcat component (for informational purposes only)" item; and 4) adding "evaluate the possibility of modifying exemption criteria for different cat perils in the PR027 interrogatories" and "evaluate the possibility of enhancing the independent model instructions" items under the new items section. Without hearing any comments from state insurance regulators and industry, Ms. Smosna said the working agenda will be forwarded to the Property and Casualty Risk-Based Capital (E) Working Group for consideration.

3. Discussed the Insured Loss Threshold for Wildfire Peril

Draft Pending Adoption

Attachment XXX
Capital Adequacy (E) Task Force
3/28/22

Ms. Smosna asked the Subgroup to consider using the same threshold of 25 million or greater estimated insurer losses for wildfire peril as the earthquake and hurricane perils. She said any received comments regarding this item will be discussed during the Subgroup's next meeting on April 19.

4. Exposed Proposal MOD 2021-17-CR (Wildfire Information-Only Reporting Exemption)

Scott Williamson (Reinsurance Association of America—RAA) said this modification applies only to those smaller companies, where the modeling requirements would impose a cost and compliance burden that represent an outsized cost relative to the incremental benefit of providing the modeled data for information-only purposes. He stated that this exemption option is intended only to apply to the information-only reporting for wildfire, while the Subgroup continues to evaluate materiality and model maturity. It would no longer be available when the wildfire peril is added to the Rcat component unless the companies qualify under the exemptions listed in PR027 Interrogatory items C(7), C(8), or C(9).

The Subgroup agreed to expose proposal MOD 2021-17-CR for a 14-day public comment period ending April 5.

5. Discussed the Independent Model Review Instruction in the Rcat Component

Mr. Chou said some written comments related the instructions to review an internal model were received from the Missouri Department of Commerce and Insurance (DCI) earlier (Attachment XXX). Ms. Lederer said the DCI asked the Subgroup to look into the following items in the internal model review instructions: 1) consider rewording item 3 to make the Subgroup's intention clear; 2) consider reviewing the comparison of internal model estimates to actual results for historical events; and 3) experiencing difficulty in receiving written documentation from the group-wide supervisor. She also stated that the DCI did not engage an outside consultant to review the model as this model is highly confidential. It was quite a heavy lift for reviewing based on the Rcat instructions. Ms. Lederer also said the DCI is not aware of any other companies that applied for permission to use their internal models in other states.

Mr. Chou urged the interested parties to review the current PR027 internal model instructions and provide comments or wordings to the NAIC staff in next three weeks. He said any received information will be discussed during the Subgroup's next meeting on April 19.

6. Discussed the Issue of Double Counting in the R5 Component

Ms. Smosna said the NAIC did not receive any comments on this item since the Subgroup's last meeting on Feb. 22. She said the wildfire peril will follow the same process as the other perils to adjust the R5 component based on the PR100's data collection. The Subgroup agreed unanimously.

7. Discussed Other Matters

Mr. Chou said that the AIR Worldwide, Risk Management Solutions (RMS), and Karen Clark & Company (KCC) are the only third-party commercial vendor wildfire models agreed to be used by the Subgroup. He stated that the Subgroup only agreed on using the CoreLogic model for earthquake and hurricane peril and ARA HurLoss and Florida Public Model (FPHLM) for hurricane peril only. These clarifications will be reflected in the 2022 Risk-Based Capital (RBC) PR027 instructions.

Draft Pending Adoption

Attachment XXX
Capital Adequacy (E) Task Force
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Having no further business, the Catastrophe Risk (E) Subgroup adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/Spring 2022 National Meeting/Task Forces/CapAdequacy/Cat Risk SG/03-22propertycatsg.docx

Capital Adequacy (E) Task Force

RBC Proposal Form

☐ Capital Adequacy (E) Task Force ☐ Health RBC (E) Working Group ☐ Life RBC (E) Working Group
☐ Catastrophe Risk (E) Subgroup ☐ Investment RBC (E) Working Group ☐ Longevity Risk (A/E) Subgroup
☐ C3 Phase II/ AG43 (E/A) Subgroup ☐ P/C RBC (E) Working Group

DATE: <u>3/22/22</u>	<u>FOR NAIC USE ONLY</u>
CONTACT PERSON: <u>Eva Yeung</u>	Agenda Item # <u>2021-17-CR</u>
TELEPHONE: <u>816-783-8407</u>	Year <u>2022</u>
EMAIL ADDRESS: <u>eyeung@naic.org</u>	<u>DISPOSITION</u>
ON BEHALF OF: <u>NAMIC and RAA</u>	<input type="checkbox"/> ADOPTED _____
NAME: <u>Jonathan Rodgers and Scott Williamson</u>	<input type="checkbox"/> REJECTED _____
TITLE: _____	<input type="checkbox"/> DEFERRED TO _____
AFFILIATION: _____	<input type="checkbox"/> REFERRED TO OTHER NAIC GROUP
ADDRESS: _____	<input checked="" type="checkbox"/> EXPOSED <u>3/22/22</u>
_____	<input checked="" type="checkbox"/> OTHER (SPECIFY) MOD <u>2021-17-CR</u>

IDENTIFICATION OF SOURCE AND FORM(S)/INSTRUCTIONS TO BE CHANGED

☐ Health RBC Blanks ☒ Property/Casualty RBC Blanks ☐ Life and Fraternal RBC Instructions
☐ Health RBC Instructions ☐ Property/Casualty RBC Instructions ☐ Life and Fraternal RBC Blanks
☐ OTHER _____

DESCRIPTION OF CHANGE(S)

- 1) PR027INT: Add C (10) to the PR027INT Interrogatory allowing an exemption for companies that meet the specific requirements.
- 2) PR027C: Modify PR027C to include disclosure of estimated wildfire risk exposure on a gross and net of reinsurance basis in-lieu of modeled results for companies exempted under C (10).

REASON OR JUSTIFICATION FOR CHANGE **

For those smaller companies, where the modeling requirements would impose a cost and compliance burden that represent an outsized cost relative to the incremental benefit of providing the modeled data for information-only purposes. The exemption option is only intended to apply to the information-only reporting for wildfire, while the Subgroup continues to evaluate materiality and model maturity.

When wildfire is added to RBC as a capital requirement, this exemption option would no longer be available, and all companies would be required to provide modeled exposure data unless they qualify under the existing exemptions listed in PR027 Interrogatory items C (7), (8), or (9).

Additional Staff Comments:

The original proposal was adopted by the Subgroup on 2/22/2022.

This proposal would modify the originally adopted proposal to add a small company in-lieu-of-modeling reporting option.

3/22/22 – The Subgroup exposed the proposal for a 14-day public comment period ending April 5.

3/28/22 – The Subgroup received comments from Julie Lederer (MO).

**** This section must be completed on all forms.**

Revised 2-2019

CALCULATION OF CATASTROPHE RISK CHARGE FOR WILDFIRE PR027C FOR INFORMATIONAL PURPOSES ONLY

		Modeled Losses				
Wildfire	Reference	(1) Direct and Assumed	(2) Net	3† Ceded Amounts Recoverable	(4)†† Ceded Amounts Recoverable with zero Credit Risk Charge	
(1) Worst Year in 50	Company Records					
(2) Worst Year in 100	Company Records					
(3) Worst Year in 250	Company Records					
(4) Worst Year in 500	Company Records					
				(5) Y/N		
(5) Has the company reported above, its modeled wildfire losses using an occurrence exceedance probability (OEP) basis?						
		(6) Reference		(7) Amount	(7) Factor	(7) RBC Requirement (C(6) * Factor)
(6) Net Wildfire Risk	L(2) C(2)			0	1.000	0
(7) Contingent Credit Risk for Wildfire Risk	L(2) C(3) - C(4)			0	0.018	0
(8) Total Wildfire Catastrophe Risk (AEP Basis)	If L(5) C(5) = "N", L(8) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"			0	1.000	0
(9) Total Wildfire Catastrophe Risk (OEP Basis)	If L(5) C(5) = "Y", L(9) C(6) = L(6) C(7)+ L(7) C(7), otherwise "0"			0	1.000	0
(10) Total Wildfire Catastrophe Risk	L(8) C(7) + L(9) C(7)					0
<u>Disclosure in-lieu-of model-based reporting:</u>				(8)		(9)
(11) For a company qualifying for the exemption under PR027INT C (10), complete 11a through 11c below:				Direct and Assumed		Net
a. Provide the company's gross and net wildfire 1-in-100-year wildfire losses on a best estimate basis in lieu of model-based reporting.						
b. Provide details on how the company estimated the amounts shown in 11a.						
c. Provide a narrative disclosure about how the company manages its wildfire risk.						

Lines 1)-(4): Modeled losses to be entered on these lines are to be calculated using one of the following NAIC approved third party commercial vendor catastrophe models - AIR, RMS, or KCC; or a catastrophe model that is internally developed by the insurer and has received permission of use by the lead or domestic state. The insurance company's own insured property exposure information should be used as inputs to the model(s). The insurance company may elect to use the modeled results from any one of the models, or any combination of the results of two or more of the models. Each insurer will not be required to utilize any prescribed set of modeling assumptions, but will be expected to use the same data, modeling, and assumptions that the insurer uses in its own internal catastrophe risk management process. An attestation to this effect and an explanation of the company's key assumptions and model selection may be required, and the company's catastrophe data, assumptions, model and results may be subject to examination.

† Column (3) is modeled catastrophe losses that would be ceded under reinsurance contracts. This should be associated with the Net Modeled Losses shown in Column (2).

††Column (4) is modeled catastrophe losses that would be ceded to the categories of reinsurers that are not subject to the RBC credit risk charge (i.e., U.S. affiliates and mandatory pools, whether authorized, unauthorized, or certified).

Denotes items that must be manually entered on the filing software.

INTERROGATORY TO SUPPORT EXEMPTION FROM COMPLETING PR027 (To be completed by companies reporting no RBC charge in either Lines 1 through 3) PR027INT

Place an "X" in the appropriate cell
for the criteria under which the
company is claiming an exemption

A Earthquake Exemption (To be completed by companies reporting no RBC charge in PR027 Line 1) -

- (1) The company has not entered into a reinsurance agreement covering earthquake exposure with a non-affiliate or a non-US affiliate and, either
 - (1a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for earthquake risks; Or
 - (1b) the company cedes 100% of its earthquake exposures to its US affiliate(s), leaving no net exposure for earthquake risks
- (2) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
- (3) The company has written Insured Value - Property that includes earthquake coverage in the Earthquake-Prone areas representing less than 10% of its surplus as regards policyholders

For any company qualifying for the exemption under 3 provide details about how the "geographic areas in the New Madrid Seismic Zone" were determined.

(3a) What resource was used to define the New Madrid Seismic Zone?

--

(3b) Was exposure determined based on zip codes or counties in the zone, was it based on all of the earthquake exposure in the identified states or was another methodology used? Describe any other methodology used.

Note: "Earthquake-Prone areas" include any of the following states or commonwealths: Alaska, Hawaii, Washington, Oregon, California, Idaho, Nevada, Utah, Arizona, Montana, Wyoming, Colorado, New Mexico, Puerto Rico, and geographic areas in the following states that are in the New Madrid Seismic Zone - Missouri, Arkansas, Mississippi, Tennessee, Illinois and Kentucky.

B Hurricane Exemption (To be completed by companies reporting no RBC charge in PR027 Line 2) -

- (4) The company has not entered into a reinsurance agreement covering hurricane exposure with a non-affiliate or a non-US affiliate and, either
 - (4a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for hurricane risks; Or
 - (4b) the company cedes 100% of its hurricane exposures to its US affiliate(s), leaving no net exposure for hurricane risks
- (5) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
- (6) The company has written Insured Value - Property that includes hurricane coverage in the Hurricane-Prone areas representing less than 10% of its surplus as regards policyholders

Note: "Hurricane-Prone areas" include Hawaii, District of Columbia and states and commonwealths bordering on the Atlantic Ocean, and/or Gulf of Mexico including Puerto Rico.

C Wildfire Exemption (To be completed by companies reporting no RBC charge in PR027 Line 3) -

- (7) The company has not entered into a reinsurance agreement covering wildfire exposure with a non-affiliate or a non-US affiliate and, either
 - (7a) the company participates in an inter-company pooling arrangement with 0% participation, leaving no net exposure for wildfire risks; Or
 - (7b) the company cedes 100% of its wildfire exposures to its US affiliate(s), leaving no net exposure for wildfire risks
- (8) The Company's Ratio of Insured Value - Property to surplus as regards policyholders is less than 50%
- (9) The company has written Insured Value - Property that includes wildfire coverage in the wildfire-Prone areas representing less than 10% of its surplus as regards policyholders
- (10) The sum of the direct and assumed premium written in wildfire-prone areas across the following Annual Statement lines is less than \$50 million: Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multi-Peril; and the company does not currently utilize NAIC approved third party commercial vendor wildfire catastrophe models.

Note: "Wildfire-Prone areas" include any of the following states: California, Idaho, Montana, Oregon, Nevada, Wyoming, Colorado, New Mexico, Washington, Arizona, and Utah.

Denotes items that must be manually entered on the filing software.

* Item C is for informational purposes only.

From: Lederer, Julie <Julie.Lederer@insurance.mo.gov>
Sent: Monday, March 28, 2022 9:11 PM
To: Yeung, Eva K. <EYeung@naic.org>
Cc: Rehagen, John <John.Rehagen@insurance.mo.gov>
Subject: Catastrophe Risk Subgroup: Comments on 2021-17-CR (MOD)

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Hi Eva,

The proposal 2021-17-CR (MOD) seems reasonable. I have a few minor comments and points of clarification:

1. On PR027C, item 11a says, "Provide the company's gross and net wildfire 1-in-100-year equivalent exposure on a best estimate basis in-lieu-of model-based reporting." I'm not sure what "equivalent exposure" means here. Does this mean losses? (I.e., provide the estimated gross and net 1-in-100-year losses?)
2. On PR027C, the "in-lieu-of" in item 11a does not need hyphens.
3. On PR027C, I believe item 11b is asking the company to describe how it estimated the dollar amounts in 11a. If that is the case, clearer wording might be "Provide details on how the company estimated the amounts shown in 11a." Otherwise, it's not clear how 11b and 11c are different.
4. On PR027C, the "it's" in item 11c should be "its" (with no apostrophe).
5. PR027INT item C(10) says, "The company writes less than \$50 million in direct and assumed premium (gross premium written) in the following Annual Statement lines – Fire, Allied Lines, Earthquake,..." Does the proposal intend for a company to sum its gross premium across the listed annual statement lines (in wildfire-prone areas) and compare the total to \$50 million? If so, maybe wording such as the following would be clearer: "The sum of the direct and assumed premium written in wildfire-prone areas across the following Annual Statement lines is less than \$50 million: Fire, Allied Lines, Earthquake, Farmowners, Homeowners, and Commercial Multiple Peril; and the company does not currently..."

Thanks for letting me provide comments.

Best regards,

Julie

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