American Property Casualty Insurance Association
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NAMIC® NATIONAL ASSOCIATION OF MUTUAL INSURANCE COMPANIES
RAA REINSURANCE ASSOCIATION OF AMERICA

July 15, 2024

Dan Daveline
Director, Financial Regulatory Services
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City. MO 64106-2197

Re: Your June 15 email and RBC Proposal 2024-20-CR (Joint Trades' Proposal)

Dear Dan:

The American Property Casualty Insurance Association, the National Association of Mutual Insurance Companies, and the Reinsurance Association of America (the Associations) appreciate the Financial Condition (E) Committee's willingness to allow for further consideration of the Joint Trades' Proposal referenced above. The proposal was developed in a good faith attempt to meet the objectives that regulators articulated were driving the need for this new regulatory requirement. We continue to be willing to work constructively with the NAIC and state insurance regulators to help shape a final product that meets regulators' objectives, has utility for insurers' own risk management, and does so in a cost-effective and resource-efficient manner. To this end we suggest, as your Question 3 below suggests, that inclusion of the industry's proposal as drafted is an acceptable way to address our concerns, which would, in turn, require some tweaks to the instructions (we will submit proposed revisions in the next few days). We set forth below our joint responses to your follow-up questions received on June 15th and we look forward to further constructive engagement with you and the (E) Committee over the course of the next few weeks.

1. *What is the exact cost that the industry believes would be required to comply with the NAIC proposal? The cost should be benchmarked in terms of meaningful buckets. For example, size of the company, percentage of the premium/revenue, percentage of the existing licensing cost, percentage of existing brokerage commission. Also, all the cost numbers should be reported on annual basis as many of the companies have multi-year contracts.*

   We believe that many smaller companies may find the NAIC proposal burdensome from a cost standpoint. Unfortunately, though, providing answers to questions 1, 2, 4, and 5 on an exact basis cannot be readily done. Modelers have no incentive to publicly disclose the additional costs of their Climate Conditioned Catalogs, particularly to parties trying to remove a mandate to purchase the products, nor are brokers incentivized to publicly disclose the prices for the services they provide for their clients. That information is confidential to the vendors and brokers and, we understand, also unique to individual purchasers or purchasing categories. Any such information would also be anecdotal and would not necessarily be representative of the cost for all insurers. That said, we have heard from large members, who may have some negotiating power, that quoted fees run approximately $50,000 annually. Importantly, a regulatory requirement mandating use of the catalogs will take away insurers' ability to negotiate with modelers and brokers, which could drive up costs further.

2. *What is the exact cost that the industry believes would be required to comply with the industry proposal? The cost should be benchmarked in terms of meaningful buckets. For example, size of the company, percentage of the premium/revenue, percentage of the existing licensing cost, percentage of existing brokerage commission. Also, all the cost numbers should be reported on annual basis as many of the companies have multi-year contracts.*

555 12th Street, NW, Suite 550, Washington, DC 20004 | 202-828-7100
8700 W. Bryn Mawr Avenue, Suite 1200S, Chicago, IL 60631-3512 | 847-297-7800

Again, any information supplied would be anecdotal. However, the expense of the industry proposal would be limited to the cost of an additional run of the catastrophe model a company is already using to calculate its RCAT charge. This cost should be minimal, both in terms of money and staff resources. The industry proposal may not even require additional run time – it is purely a recalculation of existing loss data that a company must already produce for its RBC filing.

3. *Is the NAIC proposal flexible enough to allow insurers to satisfy it by running the industry's alternative proposal? If not, what needs to be amended in the NAIC proposal to allow for that? (Both for the NAIC staff and the industry.)*

   The NAIC proposal can be amended to allow insurers to run the industry's alternative proposal. The instructions would have to be modified (and broadened beyond a footnote) to provide that companies would have the option either (1) to use a climate conditioned catalog to run projections through 2040 and 2050, (or a version developed by the company or in conjunction with catastrophe modelers and/or reinsurance brokers) or (2) to use their current RCAT model with a 50% increase in frequency of Cat 3+ hurricanes and all wildfires. Should regulators want companies to disclose an additional scenario beyond the 50% frequency to mirror the NAIC 2040 and 2050 scenarios, carriers could also run their current RCAT model with a 10% increase in frequency. It would also need to be clear that these results would not have to be converted into 2040 and 2050 projections (although some may choose to view them as potential proxies for a 2050 risk distribution). To the extent companies use the industry alternative, the cost would also be minimal. An Excel spreadsheet can be used to adjust the runs, and they would take minimal additional staff time and effort. This approach of allowing insurers to select between different options would likely also put downward cost pressure on the climate conditioned catalogs, allowing companies to purchase the catalogs at a lower cost, should they prefer to do so.

4. What is the cost per entity to comply with any of the analysis options offered, including the secondary option? How is that cost incurred, e.g., through a broker, consultant, or internal staff time? How often is that cost incurred? What is the estimated cost to the industry as a whole?

   Please see the answers to questions 2 and 3.

5. *It is my understanding that many of the larger carriers are already doing most of the work that would be involved in complying with the proposed Climate Scenario proposal, and that the cost concerns expressed would be primarily for smaller and medium-sized carriers. Please provide this committee with any estimates that the industry has produced regarding the anticipated increased costs and who will ultimately bear those costs.*

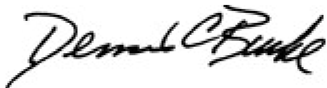
   We agree that smaller and medium sized carriers would likely feel the direct financial costs more acutely. However, our understanding is that while many larger carriers are running internal scenario analysis exercises, most are <u>not</u> using climate conditioned catalogs but are using different methods that are better suited to their individual circumstances. Accordingly, the additional costs of mandating the use of the catalogs would affect the entire industry. While we do anticipate that larger insurers would be better able to bear the costs than smaller insurers. many larger carriers are running internal climate tests on their own portfolios. For such exercises, they are generally not using climate conditioned catalogs and It is also extremely unlikely that their tests happen to match the exact emissions scenarios/year bands of the NAIC alternative scenario. As a result, additional staff time would be required to produce a view specific to this exercise regardless. Moreover, internal climate exercises being run for a company's own risk management purposes are already addressed in the NAIC Climate Risk Disclosure Survey, so further disclosures here would be duplicative.

Again, thank you, the rest of NAIC staff and the (E) Committee for continuing our discussions. Please contact us if you have any further questions, and we look forward to the Committee's August 2 call.

Sincerely,

Stephen W. Broadie
Vice President, Financial & Counsel
American Property Casualty Insurance Association

Cate Paolino, JD, MPA, MBA
Director of Public Policy
National Association of Mutual Insurance Companies



Dennis C. Burke
Vice President, State Relations
Reinsurance Association of America