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Joint Meeting of the Catastrophe Insurance (C) Working Group
and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group
Chicago, Illinois
August 13, 2024

The Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met in Chicago, IL, Aug. 13, 2024, in joint session with the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group of the Property and Casualty Insurance (C) Committee. The following Working Group members participated: Chlora Lindley-Myers, Chair, represented by Cindy Amann and Jo LeDuc (MO); Mike Causey, Vice Chair, represented by Angela Hatchell and Jackie Obusek (NC); Jimmy Gunn and Travis Taylor (AL); Lisa Watson (AR); Lucy Jabourian and Tina Shaw (CA); Wanchin Chou and Amy Waldhauer (CT); Virginia Christy, Nicole Crockett, Richie Frederick, and Bob Lee (FL); Jerry Bump (HI); Travis Grassel (IA); Marsha Hanson, Lisa Wood, and Chris Hollenbeck (KS); Timothy J. Temple (LA); Jackie Horigan (MA); Kory Boone (MD); Aaron Cooper (MS); Marissa Krafthefer and Melissa Robertson (NM); Tom Botsko (OH); Glen Mulready (OK); Cassie Soucy (OR); David Buono and Michael McKenney (PA); Glorimar Santiago (PR); Beth Vollucci (RI); Matt Watts (SC); Stephanie Fagnani (TN); J'ne Byckovski and Mark Worman (TX); Bryon Welch (WA); Ellen Potter (WV). Also participating was Susan Jennette (DE). The following Advisory Group members participated: Glen Mulready (OK), Chair; Carter Lawrence, Vice Chair represented by Stephanie Fagnani (TN); Molly Nollette (AK); Jimmy Gunn (AL); Lucy Jabourian and Tina Shaw (CA); Wanchin Chou (CT); Virginia Christy, Nicole Crockett, and Richie Frederick (FL); Travis Grassel (IA); Timothy J. Temple (LA); Kory Boone (MD); Cynthia Amann and Jo LeDuc (MO); Marissa Krafthefer and Melissa Robertson (NM); Raven Collins and Tricia Goldsmith (OR); Beth Vollucci (RI); Tony Dorschner (SD); Rebecca Nichols (VA); Bryon Welch (WA) and Ellen Potter (WV).

1. <u>Adopted its Spring National Meeting Minutes</u>

Botsko made a motion, seconded by Buono, to adopt the Working Group and Advisory Group's March 16 (*see NAIC Proceedings – Spring 2024, Joint Meeting of the Catastrophe Insurance (C) Working Group and the NAIC/FEMA (C) Advisory Group,*) minutes. The motion passed unanimously.

2. <u>Heard an Update on Federal Legislation</u>

Alexander Swindle (NAIC) said the frequency and severity of natural catastrophes are increasing with a reported $62 billion in global insured losses from natural disasters for the first half of 2024 alone. Key developments at the federal level in this space include FEMA's introduced changes to disaster aid, expanded reinsurance, and funded resilience projects.

FEMA activity includes 1) significant changes to disaster aid, providing more financial support, and removing the Small Business Administration (SBA) loan requirement, which aims to streamline aid; 2) purchasing $619.5 million in additional reinsurance for the National Flood Insurance Program (NFIP) to cover losses from major flood events; 3) revising and streamlining its application process and offering $191 million for 110 mitigation programs across the U.S.; 4) making $300 million available through the Swift Current program to boost flood resilience for insured property owners; and 5) mandating the Federal Flood Risk Management Standard (FFRMS), which requires higher elevations for new construction in flood-prone areas and aligning with climate science.

The Coalition for Sustainable Flood Insurance, a coalition of 14 attorneys general, is urging FEMA to update the Stafford Act to include extreme heat and wildfire smoke events as eligible disaster declarations. NAIC staff continue to engage with FEMA representatives and the coalition for opportunities to share information and solutions that build disaster resilience.

Swindle said Congress has been active in various hearings and public press releases about the publicized high cost of property insurance and related natural disasters. Additionally, several federal agencies, including the U.S. Department of Housing and Urban Development (HUD) and the Federal Housing Finance Agency (FHFA), have held symposiums in the past few months raising awareness and discussing resiliency and affordable housing.

Swindle said the NAIC has continued to engage on these issues at the federal level. During the 2024 Commissioner DC Fly-In, state regulators advocated for a series of bills in Congress that support 1) mitigation and resilience funding, 2) tax incentives, and 3) research for state mitigation and resilience programs to address the challenges that arise from natural disasters. These bills included 1) the Disaster Mitigation and Tax Parity Act of 2023 (S. 1953/H.R. 4070), 2) the National Earthquake Hazards Reduction Program Reauthorization Act of 2024 (S. 3606), 3) the Flood Insurance Relief Act (S. 4143), 4) the Wildfire Response Improvement Act (H.R. 7070), and 5) the Catastrophe Wildfire Prevention Act of 2023 (S. 2132).

Swindle said state insurance regulators through the NAIC are working with Rep. Mike Thompson (D-CA) on the bicameral, bipartisan H.R. 4070, which amends the Internal Revenue Code to exempt state-based catastrophe loss mitigation programs from federal taxation, as they are currently taxed like federal mitigation programs.

Swindle said Thompson and Rep. Doug LaMalfa (R-CA) are also working on the Disaster Resilience and Coverage Act of 2024 (H.R. 7849), which provides homeowners in disaster-prone regions with broad incentives to harden their properties against wildfires and other risks. The legislation includes four main provisions: 1) creating a grant program, administered through state governments, that provides eligible, individual households in disaster-prone regions up to $10,000 in resilience work on their homes; 2) stipulating that payments from the state-run disaster resilience programs and payments from various federal emergency agricultural programs are not considered for federal income tax purposes, which are similar to the provisions that are included in H.R. 4070 regarding taxation; and 3) providing a 30% tax credit for qualified disaster risk mitigation activities conducted by individuals or businesses. Swindle said state insurance regulators through the NAIC have been working with Thompson to ensure that the role of state insurance commissioners is preserved in this legislation.

3. <u>Received a Report from the Catastrophe Modeling Primer Drafting Group</u>

Crockett said the Catastrophe Insurance (C) Working Group is charged with updating the *Catastrophe Computer Modeling Handbook*, now known as the *Catastrophe Modeling Primer*. It was last updated in November 2010. During the Catastrophe Insurance (C) Working Group's June 2021 conference call, the Working Group agreed to form a drafting group to update the handbook.

Crockett said NAIC staff sent out a questionnaire to state insurance regulators and formed a drafting group in September 2021 to determine what state insurance regulators wanted to cover in the document. NAIC staff summarized the responses and shared them at a Working Group meeting in early March 2022. The Drafting Group began meeting in April 2022, and more recently, it has convened monthly to complete the drafting of the primer before the end of 2024.

Crockett said California, Connecticut, Florida, Iowa, Missouri, North Carolina, and Pennsylvania are the states participating in the Drafting Group. The primer provides the fundamental concepts surrounding probabilistic catastrophe models and serves as a bridge to available training from the Center for Insurance Policy and Research's (CIPR's) Center of Excellence (COE).

Crockett said the primer provides background on catastrophe models and their use by regulators who need an introduction to catastrophe modeling. It is advisory only and is not intended to provide mandatory guidelines. The primer is currently a 30-page document that touches on the basic concepts of catastrophe modeling, such as 1) the evolution of catastrophe modeling, 2) what a catastrophe model is, 3) how catastrophe models work, 4) model components, 5) key metrics, 6) regulatory interaction, and 7) additional concepts.

Crockett said it's important to recognize that the *Catastrophe Modeling Primer* represents a separate function and is not intended to replace any work completed by the COE but serves as a high-level introduction to catastrophe modeling. The COE provides state insurance regulators with technical training and expertise regarding catastrophe models and information about their use within the insurance industry. This document will be particularly useful to employees entering a department of insurance (DOI) workforce.

Crockett said regarding the next steps, the primer is currently being reviewed by experts at the COE and others. Once feedback is received, the Drafting Group plans to reconvene at the beginning of September. The end goal is to ultimately expose the primer to the Catastrophe Insurance (C) Working Group, interested regulators, and interested parties prior to the end of 2024. The Drafting Group plans to have the document ready for the Working Group to consider for adoption prior to or at the Fall National Meeting in Denver.
Crockett made a motion, seconded by Grassel, to adopt the Drafting Group's report. The motion passed unanimously.

4. <u>Heard an Update from FEMA on Changes to the CRS</u>

Tony Hake (FEMA) said the community rating system (CRS) is a community that exceeds the minimum requirements of the NFIP. These communities get credits that result in flood insurance discounts. Currently, the discounts range between 5% and 45% for the individual policyholder. Communities earn benefits using community activity categories in four main areas, which include 1) public information, 2) mapping and regulations, 3) flood damage reduction, and 4) warnings and response. The goals of the program are to 1) reduce and avoid flood damages to insurable property, 2) strengthen and support the insurance aspects of the NFIP, and 3) foster comprehensive floodplain management within the communities.

Hake said the CRS redesign is a multi-year effort to revamp the program, exploring both revisions to CRS scoring, as well as operational elements. He said several factors influenced FEMA's desire to consider bold programmatic changes to CRS. Stakeholders have been engaged over the past couple of years. Additionally, the Government Accountability Office (GAO) engaged FEMA in a report asking them to adjust CRS by calculating a community's rating based only on community activities that reduce flood risk and by incorporating discounts into the full-risk premium based on the actuarial evaluation of risk reduction. Secondly, the GAO asked FEMA to evaluate other means for incentivizing desirable community activities that cannot be actuarially justified but are currently a basis for discounts in CRS.

Hake said in fiscal year (FY) 2023, CRS redesign goals and objectives were established. These goals included 1) incentivizing communities to take measurable actions and make sustained progress in reducing current and future flood risk, 2) embedding equity as a foundation of the CRS program, 3) incentivizing communities to encourage property owners to purchase flood insurance to reduce their financial risk due to flood and 4) delivering a participant-centered and modernized program.

Hake said during FY 2024, FEMA is evaluating the current program and suggesting program alternatives. Stakeholder engagement questions will provide FEMA with further public input on the following potential CRS program features, which are based on previously suggested alternatives to the CRS, including 1) automatic enrollment, 2) premium surcharges, 3) risk-based premiums and CRS discounts, 4) exchanging individual benefits for community benefits, 5) enhanced technical assistance, 6) simplification of CRS, and 7) multi-jurisdictional CRS participation. FEMA will continue to collect feedback through external engagements during FY 2024. Opportunities to provide feedback will be available at upcoming conferences and events, a federal register notice request for information (RFI) with a public comment period, and public meetings and webinars.

FEMA will plan to implement the new CRS program in FY 2025; however, the earliest it could be implemented would be in FY 2026. He said FEMA would give communities adequate time, up to 18 months, to transition into the new CRS program.

Commissioner Mulready asked if the timeline included more details, such as recommendations, or if details would come out all at once. He also asked what the implementation would look like. Hake said FEMA is currently reviewing the recommendations. Once FEMA's review is complete, it will engage with stakeholders once again to provide the options being considered. He said the decisions will be based on both comments and analytical data. Hake believes the recommendations will likely be shared with stakeholders in early 2025.

Commissioner Mulready asked when the implementation would occur. Hake said it would occur in the first quarter of 2026 at the earliest. McKenney asked if the caps apply at the individual policyholder level to help mitigate the possible removal of discounts and additions of surcharges for communities not meeting CRS standards. Hake said the 18% cap set for rate increases still applies. He said that individuals could lose their discount in communities with the new CRS program depending on the activities selected for the new program.

5. <u>Heard a Presentation from FEMA on its D2C Timeline and Agent Registry</u>

Randy Stone (FEMA) said that the NFIP operated on a mainframe about 10 years ago, which processed all of the transactional data. This process took 30 to 60 days, was often inaccurate, and required a lot of manual intervention.

Stone said that due to the inconsistencies, the Pivot program was created. Pivot took the manually intensive process and automated much of it. This process set up much of the information technology (IT) infrastructure the NFIP would need going forward to enhance both operational and technical capabilities.

Stone said the NFIP then started looking at the rating process, known as risk rating. This process leveraged all of the technology that Pivot built, using data and automation to actually further personalize the rating structure. Now that the rating process is simplified and personalized, the NFIP is creating a direct-to-consumer (D2C) platform that is in line with other insurance lines of business.

Stone said the D2C system will allow consumers to get a quote for flood insurance and eventually be able to purchase the insurance directly online. He said the implementation of D2C will be a multi-phased process. The NFIP hopes to roll out the first phase of D2C by the end of this year. During this phase, D2C will provide quotes to consumers and sales leads to insurance agencies. The second phase of D2C will provide everything that was included in phase one, as well as online sales to consumers and servicing by the NFIP directly.

Stone said the NFIP is also working on an agency locator. The purpose of the locator is for consumers to be able to locate an agency within the geographic area of the location of the consumer's property so an agent can help the consumer by answering questions and helping the consumer purchase the policy during the initial phase of the D2C rollout.

Stone said the agency locator is a voluntary web program that allows agencies to sign up to participate in D2C. During the sign-up process, FEMA will review the data and validate it to ensure accuracy. Once the agencies' sign-up is complete, the locator will populate the validated agencies during the quoting process. Stone said that the consumer would initially enter their zip code. If the zip code does not show any agencies, the locator will move to the county level, followed by the state level. FEMA randomizes the agencies throughout the process and leaves the customer with the choice of the agency they use.

Stone said FEMA has been focusing on the consumer's journey and has conducted a lot of usability testing and interviews. He said several prototypes for the tool, making sure that the tool balances speed with a purchasing decision by the consumer. Stone said it is important to balance speed with a purchasing decision while also educating the public on the risk and premium breakdown they will ultimately receive

Stone said FEMA has worked on flow designs to handle various cases, such as those in a particular zone who cannot purchase flood insurance for a particular reason.

Stone said FEMA has established core working groups across the organization to ensure expertise is leveraged from around the organization. FEMA has also been working with a lot of reporting and oversight. Finally, FEMA is ready to roll out its internal testing. FEMA will be working with its underwriting branch, its Advancing Capabilities for Mitigation (ACM) branch, its marketing branch, stakeholders, etc., prior to rolling out the locator.

Stone said FEMA will roll this tool out on the FloodSmart website and allow consumers to begin using it while gathering data and improving the product as needed. FEMA will have a full launch later in the 2025 calendar year, during which the marketing and engagement team will drive traffic toward the quoting tool.

6. <u>Heard an Update from the CIPR on the Catastrophe Modeling COE Resilience Hub</u>

Brian Powell (CIPR) said the COE has been working diligently to drive resilience among DOIs and create a measurable impact on the insurance industry. Some examples of work being done on the resilience hub include 1) assisting in evaluating, developing, and implementing various loss mitigation programs for all perils, 2) demonstrating leadership in building code adoption, and 3) supporting education on the importance of catastrophe models by training DOIs using case studies.

Powell said the COE continues to build resources for state insurance regulators to utilize in support of policy and research. The COE has a SharePoint site available to regulators, and the center is working with DOIs and FEMA regions nationwide to address flood mitigation and develop risk transfer programs for floods.

Powell said the COE SharePoint site includes: 1) samples and drafts of legislation that establish mitigation programs, 2) draft regulations, 3) a mitigation program "playbook," 4) FEMA engagement materials, 5) outreach and education materials on mitigation and disaster preparedness, 6) a funding sources guide, and 7) partnership materials used to assist members with resiliency.

Powell said that Alabama, California, Florida, Louisiana, South Carolina, and Texas all have mitigation programs already in place, while Kentucky, Minnesota, and Oklahoma have legislative authority and are designing the implementation and operation of their programs.

Powell said that to accomplish this work, the resilience hub is designed to offer support to state insurance regulators in mitigation and resilience efforts. The hub coordinates partnerships, resources, advocacy, and an engagement team that visits states to address mitigation concerns. The CIPR also offers analytical services.

Powell said states considering starting a mitigation program should visit the hub for guidance. He said the hub is working as a focal point to help state insurance regulators engage and gather resources needed to design and implement a mitigation program. This will help create a consistent approach and competency nationwide. It will also create a level of efficiency with the development and implementation while saving time and money. Powell said the CIPR also has a resource that can assist state insurance regulators with funding for programs.

7. Heard a Presentation from APCIA About Mitigation Discounts

Dave Snyder (American Property Casualty Insurance Association—APCIA) said the increased cost of catastrophic events is not only related to weather but also several other factors in other sectors of the economy that affect insurance. A Verisk study indicated that a rise in exposure values and replacement costs, represented both by continued construction in high-hazard areas and by high inflation levels, is driving up repair and rebuilding costs. Insurers, the public, and state insurance regulators are all dealing with increasing catastrophe losses and rebuilding costs. Snyder said the costs of repairs and claims, coupled with unexpected inflation, added to the costs that insurers and the public had to pay. This year, there were serious and unprecedented downgrades in the insurance industry.

Snyder said another issue is supply and demand, as property insurance demand and costs increase while capital decreases. Higher rebuilding values, demographic growth and shifts, inflation, worsening weather, and legal system abuse all increase demand. He said the decreasing supply is due to rate suppression, delays, and premiums falling behind losses. The lack of profitability, added to volatility, deters new investment capital.

Snyder said the government and the private sector need to work together, so strengthening those partnerships in ways that perhaps have not been needed in the past is fundamental to the industry's collective success now. It is important to identify those things outside of the normal insurance realm that are affecting the cost of claims and are ultimately creating the availability and affordability challenges being experienced.

Snyder said stronger building codes and land use policies are fundamental to a long-term solution and improvement. Insurers are the principal funders of the Insurance Institute for Building and Home Safety (IBHS).

Snyder said APCIA has advocated at the federal and state levels for financial support to increase resilience, particularly for vulnerable populations. He said APCIA knows this is also a big concern for state insurance regulators. Insurers have a critical role to play in enhancing risk assessment using the latest technology and providing that information more effectively to consumers than has been done in the past.

Finally, it is important to invest in and underwrite climate and renewable energy technology, such as carbon capture and hydrogen.

Snyder said policy priorities include mitigation, catastrophe deductibles, and catastrophe savings accounts (CSAs). Mitigation reduces the likelihood of a loss and potentially avoids an insurance claim. There is a huge payoff when homeowners mitigate their homes because, for every dollar spent on mitigation, less money is spent on repairing or rebuilding a house following a disaster. Mitigation is not just an individual issue; it is also a community issue involving things such as infrastructure, and infrastructure at local levels, in many cases, is out of date.

Snyder said catastrophe deductibles increase the “share of risk” (i.e., a higher deductible) to reduce insurance costs. CSAs establish a pre-tax savings account to help cover pre-disaster expenses, such as mitigation, or, in the event of a loss, post-disaster expenses, such as a deductible.

Snyder said the list of financial incentives for resilience includes grants, low-interest loans, waivers or reductions in fees, tax credits, and insurance incentives. Insurers are more likely to provide discounts when they are collecting adequate rates. He said APCIA urges state insurance regulators to continue to focus on mitigation.

Snyder said that because IBHS FORTIFIED program homes meet a scientifically proven standard to be more resilient than homes built to ordinary building codes, they may benefit homeowners in more than a dozen states. He said in some states, insurers offer specific discounts to homes with a FORTIFIED designation. Other states offer discounts for specific upgrades included in the FORTIFIED standard, and four states offer tax credits to homeowners who strengthen their homes against storms.

Snyder said science-based incentives against wildfire are in place in some states. In California and a couple of other states, laws have been passed to require insurers to provide discounts for actions that make homes more resilient to wildfire. The IBHS Wildfire Prepared Home program standard requires a set of actions to be taken together to meaningfully reduce the risk of ignition from embers, direct flames, and radiant heat. Homes that meet this standard are scientifically shown to be the most resilient. Similar action must be taken and maintained at a community level to fully reduce the risk of wildfire events.

Snyder said APCIA believes the key to an effective insurance-based mitigation program ensures that it incentivizes the right actions that ultimately benefit consumers and facilitate a healthy insurance marketplace. APCIA believes a mitigation program should be 1) voluntary, flexible, and limited in scope; 2) verifiable, grounded in science, and risk-based; and 3) cost-effective, consistent, and complementary.

Snyder explained that a deductible could be a specific dollar amount or percentage of the total amount of insurance covered on a policy. He said the deductible could be a standard deductible, applying to all perils, unless otherwise specified, or a catastrophe deductible that applies to a specified catastrophe risk. APCIA said that while deductibles are highly controversial, they allow the policyholder to have at least some coverage as opposed to a situation where the coverage levels are mandated to be higher than a policyholder can manage.

Snyder said insurance is largely a passthrough mechanism of the conditions in other sectors and other aspects of society, including the movement to climate-sensitive areas, higher asset values, inflation, and other factors. He said losses are increasing dramatically, which leads to higher insurance costs. Snyder said that allowing adequate insurance rates to cover the increasing losses is critical to avoiding market disruptions. He said these are all important actions that can be taken, as well as taking advantage of opportunities to work together, that would improve resilience and help address affordability issues while also maximizing the availability of coverage. He said APCIA thinks that focusing on parametric insurance at the NAIC might be beneficial to everyone.

Amy Bach (United Policyholders—UP) asked if APCIA members were being more flexible in allowing consumers to break up the mandatory percentages in their policy. She said, for example, that she does not have a garage or other outbuildings, but she had been paying for coverage for these other structures because it was automatically built into the premium, so she was unable to drop that portion of the policy. She asked if APCIA members were looking at giving policyholders the ability to trim their coverages appropriately without requiring a large deductible. Snyder said right-sizing a consumer's homeowners policy is something APCIA would want to stay in contact with UP to hear the recommendations it has to offer. He said there is a desire for APCIA members to empower consumers.

8. Discussed Other Matters

Amann said the Reinsurance Association of America (RAA) recently signed a memorandum of understanding (MOU) to collaborate on the shared goal of analyzing and communicating weather and climate hazard risks to key stakeholders. Under the MOU, the National Oceanic and Atmospheric Administration (NOAA) and the RAA will work together to address the risks communities face and improve the usefulness of NOAA's products and services to the insurance and reinsurance industries. She recommended the Working Group members read the article for more information.

Having no further business, the joint meeting of the Catastrophe Insurance (C) Working Group and the NAIC/FEMA (C) Advisory Group adjourned.

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