

**NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS
CLIMATE & RESILIENCY (EX) TASK FORCE**
National Climate Resilience Strategy for Insurance
12/13/2023 Draft Emailed to Interested Parties; 12/20/2023 Comment Deadline

On behalf of the National Association of Mutual Insurance Companies (NAMIC)¹ members, thank you for the opportunity to provide these comments on the Climate Resilience Strategy for Insurance document which was circulated to interested parties for comment on December 13 and which was discussed at the December 3 Climate and Resiliency (EX) Task Force meeting held during the NAIC's Fall National Meeting.

We hope for an opportunity to supplement these comments and we urge you to **extend the deadline** to allow for more input from a broader member distribution. These comments are preliminary in nature and highlight some initial questions and thoughts for your consideration.

Action 1: CLOSE GAPS

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Bolded Lead-In High-Level Wording on Closing Gaps

Action 1 of the draft climate resilience strategy document deals with the issue of protection gaps and the goal of understanding them, reviewing ways to address them, and measuring progress.

- Because it appears that this work would be ongoing and that the bolded font wording is the broader goal, consider removing the “how” wording (the reference to a dashboard) from the introductory wording: “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 losing these protection gaps.”
- Without language pointing to a specific approach in the lead-in, it may be easier to connect the NAIC's work to the work of others – across the country and internationally – who are also concerned with closing protection gaps.
- Without the specific approach wording in the lead-in, the NAIC may have additional flexibility as its work in this area evolves to determine the best ways to advance regulators' understanding of these challenges and the policy options for addressing them.
- Specifics of how to accomplish goals may be better suited to the formal committee charge development process for the respective NAIC groups as well as what is currently labelled “Deliverables” [and that term is discussed more generally in the last section below].
- For greater understanding and transparency, as an overall matter, there is value to allowing public input into specific definitions relating to this and to other areas as the strategy is executed. As discussed below, this could be within the existing committee structure and open processes.

¹ NAMIC Membership includes more than 1,500 member companies. The association supports regional and local mutual insurance companies on main streets across America and many of the country's largest national insurers. NAMIC member companies write \$323 billion in annual premiums. Our members account for 67 percent of homeowners, 55 percent of automobile, and 32 percent of business insurance markets. Through our advocacy programs we promote public policy solutions that benefit NAMIC member companies and the policyholders they serve and foster greater understanding and recognition of the unique alignment of interests between management and policyholders of mutual companies.



1A|1E|1F – New NAIC Protection Gap Dashboard

This is the first stakeholders are learning of a possible new staff developed dashboard that will “inform state and jurisdiction specific priorities for insurance availability.”

- In terms of status, where is the dashboard in its development?
- Which NAIC group will oversee the proposed new NAIC Protection Gap Dashboard?
- Has this been anticipated for the charges for the upcoming year?
- Who will have access to the NAIC Protection Gap Dashboard?
- What permissions/protections are expected?
- What is the level of data granularity?
- How will numbers and gaps be determined/calculated/defined?
- Will additional discussion and details be provided through other open NAIC processes?

There are likely many more questions.

1B – Event on Policy to Close Protection Gaps

This is the first stakeholders are learning of an event at which state regulators and researchers will be convened to discuss policies relating to protection gaps.

- When is this event planned?
- Will it be an open event?
- How will guests and speakers be selected?

1C – Local Government Mitigation Priorities

- What does “encourage local governments to include insurance access as a priority to local mitigation projects” mean?
- Reducing risks for vulnerable populations must involve reducing risks. Things like land use planning (and nature based planning), smart zoning, and building codes are essential to “bend down the risk curve and foster healthy insurance markets” (which was referenced in the quote from Roy Wright, President and CEO of the Insurance Institute for Business and Home Safety).
- As the NAIC develops more specificity around this and other areas of its plan, we ask for an opportunity to share input.

1D – Communications & Training Tools

- With some previous guides and other public materials, drafting efforts have been through the NAIC’s committee structure. Is that what is anticipated here?
- What tools/materials are planned and who will be preparing them?
- Will stakeholders have an opportunity to provide input?

1G – Assessing Compounding Consequences

- What does assessing the compounding consequences from multiple perils, such as extreme heat and wildfire, create specific challenges for specific jurisdictions, look like? What type of data analysis does that look like? Is the NAIC anticipating collecting new data points? Would the NAIC use already collected data (such as RCAT)?
- In the context of a defined peril, it is unclear what is intended by extreme heat (how it might be measurable and contemplated through a possible future RCAT change).
- With the question of extreme heat in mind, is it helpful to be more generic in the drafting of this Deliverables item?

**Action 2: FLOOD INSURANCE BLUEPRINT**

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2A – National Risk Mitigation Awareness Initiative

As drafted, this mentions increasing awareness of risk mitigation. Of course, this is a worthwhile goal.

- Kindly consider whether to also increase awareness of risk in addition to risk mitigation: ... “increase awareness of flood risk and risk mitigation recommendations...”

Action 3: COMPREHENSIVE DATA

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3A – Data, Trends & Risk Priorities

- There seem to be several concepts included in this single item.
- The meaning of “risk communication priorities” is unclear.
- Before the information is for “use” should it be reviewed for use?

3E – Changes in Deductibles or Limits

- While having information about trends in these areas may be useful, it is important to not presume on the whole that consumers choice in these areas reflects a greater market problem than not having such deductibles/limits.

3F – Third Party Data Sources

- Will the third party sources be open for comment? What third party data will be used? Moving forward, transparency in this area may lead to better understanding. The draft data call materials mentioned third party data in the context of a “risk score;” it was unclear what was meant.
- Kindly see the note above regarding extreme heat and RCAT (and review “extreme heat” references throughout).

Action 4: RISK MITIGATION

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Bolded Lead-In High-Level Wording on Risk Mitigation

- For more evergreen wording, the reference to “new” resilience tools in the lead-in language may not be necessary as the NAIC works over time in this area.

4B|4D|4F – Communications [Awareness of Risk & Risk Reduction | Disaster Preparedness Guide]

- With some previous guides and other public materials, drafting efforts have been through the NAIC’s committee structure. Is that what is anticipated here? What tools/materials are planned and who will be preparing them?
- Will stakeholders have an opportunity to provide input on both communications and the kinds of questions (market and solvency) that regulators may be asking following disasters?
- For 4F, do regulators also plan to reach out to industry regarding some regulatory steps have worked well in facilitating insurers in the immediate aftermath of a natural catastrophe?

**Bolded Lead-In High-Level Wording on Test Scenarios**

- For more evergreen wording, the reference to “new” solvency and scenario analysis tools in the lead-in language may not be necessary as the NAIC works over time in this area.
- To more closely align with the framework and mandates of insurance regulation, consider referencing “climate risk” rather than “climate change.”

Solvency Workstream Pending Exposure

- The Solvency Workstream has a draft exposure document out to interested parties on an RBC Blanks Proposal with a comment deadline of January 18. To the extent that the work of the groups intersects, we ask that any forthcoming feedback be considered for purposes of this strategy document as well.

5A – Scenario Analysis Resources

- The current draft exposure document regarding RBC from the Solvency Workstream states that the regulators will not hold the proposed scenario analysis that they complete against the insurer.
- This document does not include a similar statement. It would be helpful to include a similar statement here for continuity of understanding and expectations of insurers.
- Based on the representation in the Solvency Workstream document and on the fact that there are many factors that go into understanding an insurer’s solvency (including potentially differing results from legitimate CAT models), it may be more consistent for the wording in the strategy document to read “... resources to aid for state regulators as one set of tools to use to help understand solvency risks to insurance companies.”

5C – Multi-State Multiple Scenario Analyses

- It is unclear what this means as a practical matter. mean? For example, if a group of states from a region were to want to run a multi-state scenario analysis, what steps is the NAIC envisioning? Would insurers be made aware of the exercise, or would this be a private NAIC/CIPR exercise done at the request of the regulators?

5D – Climate Stress Testing & Climate Scenario Analysis

- Rather than “better assess solvency impacts” consider “better understand potential solvency impacts” as these tools may be used to facilitate conversation between an insurer and state regulator in which there may be discussion of particular data/assumptions in the context of a particular company’s product mix and/or other models, tests, or analyses that may further round out the solvency picture.
- It is extremely important that the models that NAIC/CIPR/regulators plan to use be known to insurers up front. (Consider for example, that when an insurer compiles its MCAS data it can see the ratios it is submitting.) To the extent that the NAIC considers their tool(s) to be useful in understanding risk, sharing that information with insurers seems worthwhile.
- Today, climate is mentioned in the solvency regime, the financial exam, as well as the RBC formula, are regulators and staff using the tools in place to their maximum capacity? Will the Solvency Workstream continue to lead efforts in this area (directly and through referrals)? And will there be opportunity to offer input?



PROCESS & STRUCTURE

Overall

“Deliverables” Wording

- In place of “Deliverables” throughout, consider alternative wording [something like “possible steps to consider” or otherwise] that allows for greater flexibility as these items have not yet been integrated into charges and the “how-tos” of executing on the higher-level action items may change as next steps evolve. This may also help address some other items mentioned below.

Public-Facing Strategy Document

A public-facing strategy document in this area would be beneficial where it:

- Outlines the direction of the NAIC at a high-level; and
- Captures existing and wide-ranging work on climate-related matters happening across the NAIC (evidenced by completed work products, documented work-in-progress, and/or active charges).

Such a document could showcase NAIC efforts in states as well as in federal/international conversations.

Aspirational Items & Directional Plans / Internal Document

To the extent the Climate and Resiliency Task Force plans to include more aspirational or future directional plans in the document, it should:

- Be higher-level to allow for more flexibility going forward; or
- Be purely internal-use, though because the document is so well formatted and because some of the substance of this draft was already shared at COP28, it does not appear that is now the intent. And as internal-only use, it seems that would not be available for highlighting climate-related efforts underway within the NAIC’s ecosystem.

Process Tethered to NAIC Committee Structure/Procedures

Regardless of the intended external/internal purpose, its content intersects with NAIC committee work.

- For this reason, from a process perspective, when the NAIC works on future strategy documents, it seems that it would be worthwhile for that drafting work to be part of a broader timeline, where it would be drafted and circulated earlier to allow for it to feed into and dovetail with public distribution and discussion of charges and work for the upcoming year(s).
- And such process and transparency should be expected even if/when work is expected to be done for the NAIC/regulators through the Center for Insurance Policy and Research (CIPR).

Insurance Fundamentals

As the NAIC seeks to advance long-term approaches to climate risk through a National Resiliency Strategy for Insurance, there are advantages to putting it into the context of insurance fundamentals.

- For example, the draft document references solvency. Solvency-focused regulation recognizes the importance of insurers’ ability to meet contractual claim-payment obligations to policyholders.
- As the NAIC is focusing on climate-risk, solvency is not the only foundational pillar of insurance that should be embedded into thinking on the issue. Healthy insurance regulation also focuses on things like risk-based underwriting/rating within a competitive private market.

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Kindly understand that these comments are preliminary in nature and, especially given the timing, we ask for an opportunity to revise and expand upon them in early 2024. We look forward to working with the Climate and Resiliency (EX) Task Force in 2024 on these important matters. Thank you.