Testimony of

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On Behalf of the National Association of Insurance Commissioners

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Regarding:

Built to Last: Examining Housing Resilience in the Face of Climate Change

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Introduction

Chairman Cleaver, Ranking Member Stivers, and members of the subcommittee, thank you for the invitation to testify today. My name is Andrew Mais, and I serve as the Commissioner of the Connecticut Insurance Department. I am also the Secretary-Treasurer of the National Association of Insurance Commissioners (NAIC).[1]

We appreciate the subcommittee's efforts to focus on the importance of catastrophe preparedness and response and look forward to discussing the ongoing work of state insurance regulators and the NAIC. It is important to hold hearings such as this one to focus on strategies to improve disaster resiliency and ways in which insurance can help reduce risks associated with natural disasters.

Insurance Regulators Are Engaged on Disaster Preparedness, Resiliency, and Response

Perhaps no sector is more attuned to and focused on disaster preparedness, and directly aware of its value, than the insurance sector. State insurance regulators recognize that natural disasters take a considerable financial and emotional toll on Americans every year. Each year's disaster season comes with unique challenges for regulators and insurers, and no area of the country is immune. According to the National Oceanic and Atmospheric Administration (NOAA), in 2020, the U.S. experienced a new annual record of 22 weather and climate disaster events, each with losses exceeding $1 billion in damages. 2020 is the sixth consecutive year in which 10 or more billion-dollar weather and climate disaster events have impacted the United States. [2] These statistics underscore the importance of developing strategies today to better manage and mitigate the natural catastrophic events of tomorrow.

Insurance regulators across the country are working to find solutions to manage the catastrophic risk exposure in their respective states and, through the NAIC, we have been engaged in these efforts for decades. I serve as a member of the NAIC's Climate and Resiliency Task Force, which was formed last year to serve as the coordinating NAIC body for discussion and engagement on climate-related risk and resiliency issues. This body builds on existing efforts to address the economic consequences of natural disasters, including efforts to mitigate their toll. Our current work is focused on five areas: pre-disaster mitigation, solvency, climate risk disclosure, innovation, and technology.

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[1] As part of our state-based system of insurance regulation in the United States, the National Association of Insurance Commissioners (NAIC) provides expertise, data, and analysis for insurance commissioners to effectively regulate the industry and protect consumers. The U.S. standard-setting organization is governed by the chief insurance regulators from the 50 states, the District of Columbia, and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. For more information, visit www.naic.org.

[2] NOAA National Centers for Environmental Information (NCEI) U.S. Billion-Dollar Weather and Climate Disasters (2021). https://www.ncdc.noaa.gov/billions/, DOI: 10.25921/stkw-7w73

Our pre-disaster mitigation workstream is participating in multi-agency stakeholder educational efforts on coverage gaps and pre-disaster mitigation related to climate risks and to incentivize insurer recognition of enhanced building codes in underwriting and pricing. In March, the NAIC hosted a building code and mitigation workshop that included 19 state insurance departments, the Federal Emergency Management Agency (FEMA), state emergency management agencies, insurance industry representatives, and consumer groups.[3] This workshop was one of many forums to coordinate public-private partnerships for risk reduction and resiliency. Building codes and mitigation are important risk management tools to promote risk reduction, public health, and safety. Risk reduction and mitigation protects consumers and reduces the losses paid by insurers (or otherwise absorbed through federal spending), helping to maintain solvent markets while keeping rates more affordable. It is estimated that for every dollar we invest in mitigating against future natural hazards we save six dollars. The cost of not investing is significant. In 2020, according to a report from Aon, global insured losses derived from natural disasters reached $97 billion, with weather-related disasters accounting for 99% of that number. Roughly 36% of global economic losses were covered by insurance. The United States accounted for 76% of the total.[4]

Second, we have a workstream focused on examining the potential solvency impact of insurers' exposures, including investments, to climate-related risks. This workstream may consider enhancements to regulator solvency tools, to analyze and address an insurance company's potential financial exposure to both the physical and transition impacts of climate change.

Third, we have established a workstream on climate risk disclosure, which is considering modifications to our existing NAIC Climate Risk Survey to promote uniformity in reporting requirements. For many years, through the California Department of Insurance, the NAIC has issued a Climate Risk Disclosure Survey, which collects information from more than 1,200 insurers capturing more than 70% of the U.S. insurance market and provides insurance regulators with insight into how insurers assess and manage climate risks. This workstream has been considering modifications to the NAIC Survey to better align with Task Force on Climate-related Financial Disclosures (TCFD).

Fourth, we have established a workstream considering innovative solutions to climate risk and resiliency directed at reducing, managing, and mitigating climate risk while closing insurance gaps in coverage for consumers.

Finally, we have established a workstream focusing on the increasing use of technology to better assess and evaluate climate risk exposure such as predictive modeling tools, primarily catastrophe

[3] https://content.naic.org/climate-resiliency-resource.htm
[4] https://www.aon.com/global-weather-catastrophe-natural-disasters-costs-climate-change-2020-annual-report/index.html

models used for wildfire, hurricane, flood, and earthquake among other perils. Technology is already playing an important role in the underwriting and claims processes, and we expect that to accelerate. We hope our work will enhance the strength of the sector and help ensure insurance consumers are protected from some of the economic and physical effects of climate change.

In addition to our Climate and Resiliency Task Force, I also serve as a member of the NAIC's Catastrophe Insurance Working Group, which developed a State Disaster Response Plan last year that provides a template for state insurance departments to use when assisting consumers and provides guidance to insurers and other licensees.[5] We also developed a Post Disaster Claims Guide to help consumers understand what to do after a natural disaster damages their property, as well as how to prepare and take preventive measures to limit impact.

The NAIC understands the challenges related to disaster recovery and coordinates with state insurance departments across the country to help affected communities and to support state efforts. The NAIC Disaster Assistance Program provides support to commissioners with data calls, consumer assistance call centers, and regulator assistance in the aftermath of a disaster.[6] For example, in the aftermath of Superstorm Sandy, the NAIC set up a call center to support the affected states as they responded to a high volume of calls to the insurance departments. Staffed by regulators from other states, the call center represented the collaborative strength of our state-based system. Volunteer regulators spent close to 460 hours handling more than 850 calls, ensuring consumers had access to information and resources immediately following the storm.

The NAIC also serves as a member of the Financial and Banking Information Infrastructure Committee (FBIIC), which facilitates the sharing of information among federal and state financial regulators, particularly in response to incidents impacting the financial sector's infrastructure, including natural catastrophes. During catastrophes, the NAIC actively engages in FBIIC daily calls to provide the state insurance perspective and report on actions taken in response to the disaster, which helps develop a shared situational awareness across the financial sector and its regulators.

The NAIC's Center for Insurance Policy and Research (CIPR) has also been active in researching various aspects of resiliency and disaster preparedness. In fact, we just concluded an interactive event in coordination with the Insurance Institute for Business and Home Safety (IBHS) on the insurance implications of severe convective storms, which included a live demonstration of the importance of building resilience standards. CIPR also maintains a state resiliency map (https://content.naic.org/cipr_resiliency_map.htm) which includes disaster and resilience information tailored to the unique perils confronted in different regions. A comprehensive

[5] https://content.naic.org/sites/default/files/inline-files/idrp_10222020-Fillable.pdf
[6] https://content.naic.org/sites/default/files/inline-files/NAIC%20Disaster%20Assistance%20Program_0.pdf

compendium of NAIC publications and resources on resiliency and disaster preparedness is available on our website (https://content.naic.org/cipr_resiliency_map.htm).

Partnership with Federal Emergency Management Agency (FEMA)

State insurance regulators also have a collaborative relationship with FEMA and have partnered together on education and training for insurance agents and coordinated to develop a NFIP reference guide for state insurance departments. As noted above, FEMA played a key role in our building code workshop, and the NAIC is hosting Resilience Roundtables with FEMA across the country, which has involved 28 states thus far. These events are focusing on how FEMA, state insurance departments, and the NAIC can work better together on resilience priorities before, during, and after disaster events. The NAIC has also signed a memorandum of agreement with FEMA allowing for more formal collaborative efforts. For example, FEMA Region 4 states (AL, FL, GA, KY, MS, NC, SC, TN) recently formed a FEMA-State DOI Resilience Working Group that will meet monthly and is focusing on lessons learned from 2020 in advance of the 2021 hurricane season. FEMA will also be presenting at the NAIC Insurance Summit in June to discuss Risk Rating 2.0. Further, the NAIC's Catastrophe Insurance Working Group has formed a FEMA-NAIC Advisory Group and the NAIC is working with FEMA Region 10 (AK, ID, OR, WA) on an earthquake training exercise.

Importance of Long-Term Reauthorization of the National Flood Insurance Program (NFIP)

State insurance regulators recognize the pivotal role that flood insurance plays in preparedness and recovery and are engaged in outreach efforts to educate consumers and help encourage higher take-up rates. The devastating effects of storms and the widespread lack of flood coverage underscore the need for continued efforts between the public and private sector to raise awareness about the importance of flood coverage.

The NAIC developed guiding principles for NFIP Reauthorization for Congress emphasizing the importance of long-term reauthorization/reforms, encouraging greater private market growth to help provide consumers with additional choices for flood insurance products, and increasing investment in mitigation planning. While the NAIC does not have a position on any NFIP reauthorization bills at this time, we appreciate that Chairwoman Waters' draft bill includes some provisions from our NAIC guiding principles, including ensuring that private flood insurance meets the continuous coverage requirement, so policyholders have a choice to return to the NFIP without penalty, including not losing any subsidy they previously had with the NFIP, as well as language to ensure that consumers receive pro-rata refunds when they cancel a NFIP policy midterm to switch to a private policy. We also appreciate the increased funding authorizations for mitigation.

Insurance regulators support the inclusion of mitigation discounts, such as premium discounts or insurance rate reductions to persons who build, rebuild, or retrofit their properties to better resist flood events, and allowing individuals to set aside funds in a tax-preferred savings account for disaster mitigation and recovery expenses. We also support federal legislation, such as the Catastrophe Loss Mitigation Incentive and Tax Parity Act of 2019, that would ensure that state-based disaster mitigation grants receive the same federal tax exemptions as federal mitigation grants to help provide greater incentives for homeowners to take action to protect their homes from natural disasters. These actions along with building and maintaining structures that incorporate mitigation strategies have the potential to reduce future program losses and improve the financial condition of the program.

Finally, we support legislative reforms to ensure accurate flood mapping and increased transparency around developing and updating flood maps. Any reauthorization legislation should include strategies to increase flood insurance take up rates, including facilitating opportunities to educate consumers about flood insurance policy options, and encouraging the purchase of flood insurance for those outside of special flood hazard areas.

Conclusion

In conclusion, state insurance regulators appreciate the subcommittee’s attention to disaster preparedness and mitigation. Insurance is critical as insurance claim payments are the economic catalyst that restarts an affected region in the aftermath of a natural catastrophe. However, insurance is not a complete answer to our nation’s resilience in the face of catastrophic natural disasters. As experience repeatedly shows, pre-event disaster planning, effective mitigation and rational building codes are crucial parts of the solution. It is important to think about catastrophe proposals so that solutions to these interlaced problems are not crafted in isolation. Developing a broad approach that recognizes the roles of the private market, the states, and the federal government, will result in a comprehensive solution that benefits all consumers.

Thank you for the opportunity to testify today and I would be pleased to take your questions.