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April 24, 2026

Property and Casualty Insurance (C) Committee
National Association of Insurance Commissioners
1100 Walnut Street, Suite 1000
Kansas City, MO 64106-2197

Re: Request for comments on draft Affordability and Availability of Homeowners Insurance
Playbook Template

Thank you for the opportunity for Verisk to provide comments on the draft Affordability and Availability of Homeowners Insurance Playbook Template developed by the NAIC Property and Casualty Insurance (C) Committee.

Introduction

To best understand our perspective, please note that Verisk and its subsidiaries provide information (including statistics, underwriting and claims information), actuarial analyses, policy language, and consulting and technical services in connection with multiple lines of property/casualty insurance, as well as catastrophe models and information about specific properties. Our customers include insurers and reinsurers, as well as agents, brokers, self-insureds, risk managers, financial services firms, regulators, and various government agencies.

Our comments elaborate on the following suggested changes to the NAIC Playbook:

1. Characterization of ISO's Public Protection Classification (PPC)
2. Explanation of Wildfire Catastrophe Models
3. Flood Mapping
4. Underinsurance
5. Risk Mitigation & Incentives
6. Technology and Data Innovation

After thoughtful review of the NAIC Playbook, we believe our suggested changes will support a factual and objective narrative.



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Characterization of ISO's Public Protection Classification (PPC)

First, we suggest revisions with respect to ISO's PPC product. Our ISO Fire Suppression Rating Schedule (FSRS), evaluates four primary categories of fire suppression – fire department, emergency communications, water supply, and community risk reduction. The FSRS includes standards set by the National Fire Protection Association (NFPA). Expert staff collect information about municipal fire protection efforts in communities throughout the United States. In each of those communities, ISO analyzes the relevant data and assigns a Public Protection Classification (PPC[®]) – a number from 1 to 10. Class 1 generally represents superior property fire protection, and Class 10 indicates that the area's fire suppression program does not meet ISO's minimum criteria.

By classifying communities' ability to suppress structure fires, we help the communities evaluate their public fire-protection services. The program provides an objective, countrywide standard that helps fire departments in planning and budgeting for facilities, equipment, and training. The ISO PPC program is not a wildfire evaluation program.

Given these characteristics, we suggest the following revisions to page 6 of the draft:

Use of Proprietary Wildfire Maps Risk Tools and Lack of Consistent Considerations Regarding Standards and Risk Classification

Historically, insurance regulators' primary tools for assessing risk were static—actuarial tables based on historical averages and broad geographic zones. Insurers also use ~~depended on~~ the Insurance Services Office (ISO) Public Protection Classification (PPC) system, a proprietary standardized measure of a community's ability to fight structure fires, based on distance to the responding fire stations, fire department capabilities, emergency communications, water supply, and community risk reduction, and water sources. It ~~was~~ is transparent, consistent, and easy for regulators to verify. ISO's PPC is not designed to measure wildfire risk specifically, additional tools have been developed specifically to evaluate wildfire risk.

Explanation of Wildfire Catastrophe Models

Second, we suggest differentiating wildfire specific tools designed to address catastrophic exposure from tools like PPC as both are currently used in the market to evaluate different risks (page 6).



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~~Many different tools exist for understanding wildfire risk today. The advent of e-Catastrophe modeling has transformed the rating landscape, shifting the industry from a standardized, community-based rating system to adding a property-specific focus that often may lack traditional methods of transparency for both regulators and homeowners, compared to community-based systems. Third-party vendors offer these sophisticated catastrophe models that account for hazard variables such as vegetation density, slope, aspect and, wind patterns and property and community level mitigations. Unlike the ISO scores, these models are largely proprietary and may require different explanations than historical methods of evaluating risk. Additionally, insurers now utilize satellite imagery and aerial photography to assess the combustibility of individual properties. Moreover, the use of proprietary wildfire maps tools has led to significant variations in how wildfire risk and protection classes are is defined, sometimes resulting in substantial differences in risk scores for homes within the same town.~~

~~This The different tools and potential variation in outcomes complicates a regulator's ability to ensure fair and non-discriminatory pricing. When an insurer files a rating plan based on a proprietary wildfire map tool, regulators may ask for additional information about the tool to understand its use within a given rating plan. are often asked to approve rates based on a "black box" algorithm Third-party vendors of these tools may also take additional steps to explain their models to regulators, ensuring transparency and understanding Without needing a standard to test these models against, regulators cannot definitively say whether a model accurately reflects physical risk or inadvertently redlines vulnerable communities. In addition, some states have more formal processes for review of wildfire tools.~~

Flood Mapping Concerns

Third, we suggest revisions to page 6 to more accurately characterize flood mapping.

~~While wildfire mapping has moved from simple standards to complex proprietary models, flood mapping Understanding flood risk faces a different challenge: divergence between the private market using proprietary tools and the established federal flood insurance maps.~~

Underinsurance

Fourth, we suggest revisions beginning on page 21 to better reflect the importance of modern-day tools and ensure a more balanced discussion.

At NAIC national meetings, Kenneth S. Klein, an NAIC Individual Consumer Advocate, has presented analysis regarding underinsurance in the United States to the NAIC. His work suggests that underinsurance is not a result of isolated errors or consumer negligence, but rather a complicated, systemic



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issue. Related factors include insurer use of tools that are not consistently accurate in estimating replacement costs and the impacts of demand surge.

Replacement cost estimate tools have evolved from manual, tedious, high-level methods based on broad square-foot averages or printed cost guides to now modern software that leverages detailed property attributes and current cost data. These tools produce faster, more consistent estimates that better reflect rebuilding costs, giving insurers a more robust picture of what it actually takes to rebuild a home. While individual contractor bids naturally vary, replacement cost tools are designed to provide a representative estimate aligned with typical regional costs and help reduce expenses for homeowners and insurers by limiting the need for multiple contractor bids.

Data ~~challenges~~ limitations, including ~~the lack of data~~ on reconstruction estimates, actual rebuilding costs, and the frequency of total losses, can make it difficult for regulators to ~~measure the true extent~~ fully understand the scope of underinsurance and ~~mitigate~~ may limit their ability to ~~craft~~ develop effective properly aligned policy responses.

More broadly, without sufficiently comprehensive and consistent data across the market ~~Without access to insurer held data, it is~~ can be challenging to ~~accurately assess~~ determine whether underinsurance is ~~due to flawed~~ driven by estimation tools, consumer behavior, market dynamics or other factors, ~~which can limit regulators' ability to enforce~~ This uncertainty can constrain efforts to evaluate practices, assess the effectiveness of standards, require algorithm validation, or require disclosures or consider approaches that support transparency and that would help consumers make informed decisions.

Risk Mitigation and Incentives

Fifth, we suggest revisions to page 31 to emphasize the need for a holistic approach to wildfire mitigation.

For states addressing wildfire mitigation, consideration should be given to adopting the IBHS Wildfire Prepared Home Standard. This standard incorporates elements of home protection, such as creating a defensible space around a structure free of fuels for fire, including combustible shrubbery and wood fences connected to the structure, and using protective measures against embers that can spread fire, such as roofs and ventilation grates. These measures help prevent embers from entering a structure. Importantly, the effectiveness of the standard depends on adopting these measures as a whole; partial or piecemeal implementation may significantly reduce the intended risk mitigation benefits.



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Technology and Data Innovation

Lastly, we provide edits for clarification and balance on page 37.

Climate Model Integrations with State Affordability Forecasts

Many private entities have made ~~catastrophe~~ models looking at catastrophic perils available for public use. For example, First Street has developed several predictive models and utilizes them to translate ~~catastrophe~~ modeling outputs into clear, understandable communications, enabling consumers to understand their risk at home or at their place of business. States could consider using models like ~~First Street's~~ to augment their use of FEMA risk maps when setting boundaries for insurance requirements for risks such as flooding or wildfire. Partnering with state housing agencies to use this modeling for catastrophic events could also enhance insurance coverage for affordable housing providers and other businesses.

Conclusion

Thank you again for the opportunity to provide comments on the draft Affordability and Availability of Homeowners Insurance Playbook Template. We appreciate the Committee's efforts to develop a balanced and informative resource and offer these comments to support a clear, factual, and objective narrative. Verisk would be pleased to provide additional information or participate in further discussions as the NAIC Playbook continues to evolve. Please feel free to contact me should you require additional information concerning our position relative to these matters.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Laura L. Panesso', written in a cursive style.

Laura L. Panesso, CPCU
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