American Property Casualty Insurance Association
INSURING AMERICA apci.org

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APCIA Comments
Re: NAIC Residential Mitigation Grant Program Model Law Exposed

Sent Via Electronic Mail to: nbeydler@naic.org

Dear Ms. Beydler,

APCIA appreciates the NAIC's efforts to encourage mitigation and resilience investments that reduce losses, improve community resilience, and support long-term insurance affordability and availability. APCIA also recognizes the value of greater consistency across states, which can improve program administration, technology implementation, consumer understanding, and insurer participation.

Mitigation programs are most effective when they are fully grounded in demonstrated science-based risk reduction, actuarial principles, independent verification, and flexible implementation mechanisms. APCIA supports the overall objectives of the model and offers the following recommendations below, and attached as track change edits to the model law, to strengthen those principles.

1. Mitigation Standards Must Be Science-Based, Variable, and Demonstrably Effective

APCIA supports mitigation standards backed by credible science, independent verification, and demonstrated loss-reduction benefits. While the model seeks to remain standards-neutral, overly broad recognition of alternative standards could create uncertainty regarding effectiveness, consistency, and insurer treatment.

> **Recommended Revision**: Revise Section 6 to expressly permit grant funds to be used for inspections, evaluations, certifications, and other verification activities necessary to confirm compliance with recognized mitigation standards. Independent verification is a critical component of ensuring that mitigation investments achieve measurable risk reduction. Grant

> eligibility for these activities will help support program integrity and improve confidence in reported resilience outcomes.

Established programs such as IBHS FORTIFIED and Wildfire Prepared provide proven examples of frameworks that combine science-based requirements, independent third-party verification, and measurable resilience improvements. APCIA believes the model should expressly recognize these programs and establish clearer criteria for recognition of mitigation standards and ensure that any alternative standards provide substantially equivalent or greater scientific support, verification, and loss-reduction effectiveness.

> **Recommended Revision***:* Amend the definition of "Recognized Mitigation Standard" and related provisions governing alternative compliance pathways to clarify that alternative standards, mitigation tiers, or engineering-based approaches should be eligible only where they are supported by objective scientific evidence, independent verification, and demonstrated loss-reduction effectiveness that is substantially equivalent to the recognized standards for the same designated peril. This would preserve innovation while ensuring that mitigation investment produces measurable and verifiable benefits.

APCIA is further concerned that a proliferation of differing state-specific mitigation standards could create inconsistent treatment across jurisdictions and make it more difficult for consumers, regulators, insurers, and other stakeholders to understand, evaluate, and support mitigation investments. Greater alignment around recognized effective mitigation standards and verification protocols would improve transparency for homeowners, facilitate implementation by insurers, and support broader coordination among lenders, real estate stakeholders, insurers, regulators, and other entities promoting resilience investments.

2. Premium Credits Must Remain Risk-Based and Actuarially Justified

One of APCIA's most significant concerns is ensuring mitigation discounts remain actuarially justified and directly tied to demonstrated reductions in expected losses.

> **Recommended Revision**: Revise section 9A to provide that insurers *may*, rather than *shall*, offer mitigation discounts. In many jurisdictions, sufficient loss experience does not yet exist to support mandatory discount structures across all mitigation measures and designated perils. A permissive framework would allow mitigation programs to mature while insurers, regulators, and other stakeholders develop the data, modeling, and actuarial support necessary to evaluate mitigation effectiveness.

The model's benchmark discount structure risks becoming a de facto rating mandate if insurers are required to provide discounts that exceed actuarially supported loss reductions. Discount levels that are disconnected from actual risk reduction can undermine rate adequacy, distort market signals, and create inequities among policyholders.

These concerns are particularly important because credible mitigation loss experience remains limited in many jurisdictions. Although catastrophe modeling may help estimate expected benefits, available data remains relatively immature for many retrofit programs and mitigation techniques.

Accordingly, APCIA generally believes insurers should retain flexibility to develop and file their own actuarially supported mitigation credits where appropriate, rather than being compelled to use a uniform benchmark discount. APCIA also notes that several state mitigation frameworks treat benchmark discounts as rebuttable presumptions rather than mandatory minimums, preserving actuarial flexibility while still encouraging mitigation.

> **Recommended Revision**: Clarify that the Premium Benchmark Table serves as a reference point and does not establish mandatory minimum discounts that insurers must provide irrespective of actuarial support. Insurers should retain the ability to develop and file alternative actuarially supported mitigation credits consistent with applicable state rating laws.

APCIA also believes the model should expressly recognize that mitigation discounts must be developed in accordance with applicable actuarial standards and supported by credible evidence demonstrating a relationship between mitigation measures and expected loss reductions. Particularly during the early stages of program implementation, insurers and regulators may face limited loss experience and may need to rely on catastrophe modeling and other actuarial tools when evaluating mitigation effectiveness.

> **Recommended Revision**: Expressly recognize that catastrophe modeling, engineering analysis, and other accepted actuarial methodologies as appropriate sources of support for mitigation credits, particularly where historical loss experience remains limited.

APCIA notes that several existing state mitigation programs, including those in Louisiana and Minnesota, provide useful examples of how benchmark discount frameworks can coexist with actuarial flexibility. Aligning the model with those approaches could help improve implementation consistency while preserving sound actuarial practices.

APCIA also believes mitigation incentives should be structured in a manner that directly reflects the underlying risk reduction achieved by the mitigation activity directed towards traditional owner-occupied residences, to allow discounts to be effectively calibrated to demonstrated reductions in expected losses.

> **Recommended Revision**: Clarify that the program is intended **for** traditional owner-occupied residential risks and that mitigation incentives should remain aligned with the exposures and loss-reduction benefits associated with those risks.

Inadvertent expansion of eligibility to risks under farmowners, agribusiness and other agricultural policies, with significantly different exposures, risks dilution of funding, compliance difficulties, and shifting program priorities away from core principles of reducing risk to owner-occupied residential properties.

3. Mitigation Credits Should Apply Only to the Peril Being Mitigated

The model is correctly structured around peril-specific mitigation concepts, including designated perils, peril-specific mitigation measures, and peril-specific mitigation standards. APCIA believes the premium treatment should follow the same structure.

Mitigation credits should correspond to the portion of premium associated with the peril whose expected losses are being reduced. Applying mitigation credits to unrelated coverages could create discounts for risks that were not actually mitigated and would weaken the risk-based foundation of the program.

While the draft may implicitly contemplate this approach, APCIA recommends clarifying that mitigation discounts should reflect the expected reduction in losses associated with the specific peril being mitigated. Insurers should retain flexibility to apply actuarially justified credits either to the premium component associated with that peril or, where operationally appropriate, to the policy premium as a whole, provided the resulting credit appropriately reflects the demonstrated reduction in risk.

> **Recommended Revision**: Clarify that premium discounts and benchmark credits should correspond to the designated peril addressed by the mitigation activity. Aligning credits with peril-specific risk reduction helps preserve the actuarial integrity of the program and ensure premium incentives remain tied to demonstrated reductions in expected losses.

4. Preserve Product Flexibility and Avoid Mandatory Coverage Requirements

APCIA supports innovation in insurance products that promote resilience and encourage stronger rebuilding following losses. However, APCIA is concerned about provisions that effectively require insurers to offer specific endorsement products or prescribe key product design features.

Insurers should retain flexibility to determine eligibility criteria, underwriting requirements, coverage limits, pricing, policy conditions, and other product features consistent with their business models, risk profiles, and applicable state laws.

> **Recommended Revision**: Revise Section 9 to make resilience endorsements optional and preserve insurer flexibility regarding eligibility criteria, underwriting requirements, coverage triggers, policy limits, pricing, and policy design. A flexible framework would better accommodate differences in state markets, insurer operations, and peril characteristics while still supporting resilience objectives. APCIA is also concerned that, as drafted, the endorsement could create unintended coverage obligations following relatively minor partial losses. For example, limited damage to a specific building component could potentially trigger broader upgrade or replacement obligations that extend beyond the scope of the covered damage. The model should more clearly define appropriate coverage triggers and provide flexibility for states and insurers to align endorsement structures with existing insurance laws, replacement requirements, and market practices.

Finally, APCIA is concerned that mandatory mitigation endorsements could create adverse-selection challenges and unintentionally concentrate participation among properties most likely to generate significant resilience-related claim payments. The framework should therefore provide insurers flexibility in determining when and how resilience endorsements are offered and structured, including appropriate eligibility requirements, coverage triggers, and policy limits.

> **Recommended Revision**: Clarify the circumstances under which resilience endorsement benefits are triggered following a covered loss to avoid unintended coverage obligations for relatively minor partial losses that may not warrant broader system upgraded extending beyond the damaged property component.

5. Recognize Existing Insurance Product Boundaries

Additionally, the scope of application provisions in the proposed revision define "Eligible Residence" broadly focuses on owner-occupied residential dwellings insured under a homeowners policy. Existing drafting notes limit the Program to primary, owner-occupied dwellings and exclude rental properties. The drafting note further provides that states wishing to extend eligibility to rental housing may broaden the definition by removing the term "owner-occupied."

We encourage the drafters to account for the conventional distinction between residential and commercial property insurance when proposing how states address the "Eligible Residence" definition. Specifically, the drafting notes should provide additional clarifying language highlighting that properties containing five or more dwelling units are typically insured under commercial policies, which are not intended to be covered by the mitigation discount framework contemplated in this proposal.

> **Recommended Revision:** Revise the First Drafting Note of Section 3 to expand upon the explanation of possible treatment of the definition of "Eligible Residence" to clarify that if a state chooses to expand eligibility beyond owner-occupied homes, the expansion should generally be limited to residential properties containing four or fewer dwelling units. Further explaining that larger residential rental properties, typically those with five or more units, are commonly insured under commercial property policies and fall outside the personal lines framework contemplated by the Act.

6. Regulatory Authority Should Be Accompanied by Appropriate Guardrails

The model delegates substantial authority to regulators to approve mitigation standards, establish benchmark discounts, recognize alternative compliance pathways, determine eligibility, and define program requirements.

While APCIA recognizes the need for implementation flexibility, decisions affecting mitigation eligibility and insurance pricing should remain grounded in objective scientific, engineering, catastrophe modeling, and actuarial evidence. APCIA believes additional guardrails would improve consistency, predictability, and transparency while reducing the potential for varying interpretations across jurisdictions.

APCIA is also concerned that broad discretion to recognize mitigation standards could create pressure for the adoption of state-specific standards or approaches whose effectiveness has not been demonstrated to the same degree as more established programs. Greater clarity regarding qualification criteria would help ensure that recognized standards remain grounded in objective evidence and maintain consistency across jurisdictions.

> **Recommended Revision**: Clarify that decisions regarding recognition of mitigation standards, approval of alternative pathways, and development of benchmark discounts should be grounded in objective and transparent scientific, engineering, catastrophe modeling, and actuarial evidence.

7. Program Complexity Should Not Outweigh Consumer Benefits

Compared to mitigation frameworks centered on established standards, the NAIC model introduces multiple perils, standards pathways, discount methodologies, endorsement requirements, verification processes, reporting obligations, and areas of regulatory discretion. While APCIA supports flexibility, the cumulative effect of these provisions may increase implementation complexity, regulatory uncertainty, and administrative burden that could ultimately diminish consumer benefits.

In addition to regulatory complexity, APCIA is concerned that multiple mitigation standards, verification pathways, and discount structures could increase implementation costs for insurers through systems development, policy form revisions, training, sales and distribution activities, servicing requirements, and ongoing program administration.

Similar challenges may arise for regulators, who would be responsible for evaluating, overseeing, and administering potentially numerous mitigation standards and discount frameworks, while ensuring staff are appropriately trained to review and implement them consistently. A more fragmented standards environment could also make it more difficult to develop credible actuarial support for mitigation discounts, particularly where limited loss experience already exists. As data becomes dispersed across multiple standards and verification approaches, the credibility and consistency of analyses used to evaluate mitigation effectiveness may be diminished. This could further complicate efforts by regulators, insurers, and organizations such as the NAIC's Center of Excellence to develop, validate, and maintain reliable mitigation discount methodologies. Greater standardization would improve regulatory oversight, support more consistent implementation across jurisdictions, and strengthen the analytical and actuarial foundation needed to evaluate mitigation benefits.

Greater consistency across jurisdictions can also support broader adoption of mitigation by improving consumer participation and understanding, facilitating lender and real estate recognition of mitigation investments, and creating more reliable data sets for measuring mitigation effectiveness over time.

APCIA therefore encourages NAIC to carefully balance flexibility with consistency and standardization. Greater alignment around recognized mitigation standards and verification protocols would facilitate implementation, support mitigation adoption, strengthen regulatory oversight, and reinforce the actuarial foundation needed to evaluate mitigation benefits. Where possible, the framework should remain practical, scalable, and focused on demonstrated loss reduction while minimizing unnecessary procedural complexity and operational burdens.

Closing

APCIA strongly supports efforts to improve individual and community resilience and reduce losses through effective mitigation. We appreciate the NAIC's work to develop a model that can help states expand mitigation opportunities and support more resilient homes and communities.

As the model advances, APCIA requests refinements that ensure mitigation incentives are actually effective and remain science-based, actuarially sound, independently verifiable, and appropriately aligned with demonstrated risk reduction. APCIA also requests the NAIC pursue a framework that promotes consistency, credibility, and practical implementation across jurisdictions while preserving sufficient flexibility to account for differences in peril characteristics, insurer operations, and state market conditions.

By balancing consistency with flexibility, the model can support broader adoption of mitigation measures, improve consumer confidence and understanding, strengthen regulatory oversight, and enhance the ability to evaluate mitigation effectiveness over time. A framework rooted in demonstrated risk reduction will maximize consumer benefits, strengthen resilience, and support long-term insurance affordability and availability.

Thank you,

Dave Snyder
Vice President, International & Counsel
American Property Casualty Insurance Association

Attachment: NAIC Residential Mitigation Grant Program Model Act-DRAFT_APCIA redline 090826