

CLIMATE AND RESILIENCY (EX) TASK FORCE

Climate and Resiliency (EX) Task Force Aug. 15, 2024, Minutes

Draft Pending Adoption

Draft: 8/25/24

Climate and Resiliency (EX) Task Force
Chicago, Illinois
August 15, 2024

The Climate and Resiliency (EX) Task Force met in Chicago, IL, Aug. 15, 2024. The following Task Force members participated: Lori K. Wing-Heier, Co-Chair (AK); Ricardo Lara, Co-Chair (CA); Andrew R. Stolfi represented by Kirsten Anderson, Co-Vice Chair (OR); Jeff Rude, Co-Vice Chair (WY); Mark Fowler (AL); Alan McClain (AR); Barbara D. Richardson (AZ); Andrew N. Mais represented by Wanchin Chou (CT); Karima M. Woods represented by Sharon Shipp (DC); Trinidad Navarro represented by Alisa Pritchard (DE); Michael Yaworsky represented by Virginia Christy (FL); Gordon I. Ito (HI); Doug Ommen (IA); Ann Gillespie (IL); Sharon P. Clark (KY); Timothy J. Temple (LA); Kevin P. Beagan represented by Jackie Horigan (MA); Joy Y. Hatchette represented by Gregory Ricci and Kory Boone (MD); Anita G. Fox represented by Parker Fisher (MI); Grace Arnold represented by Peter Brickwedde (MN); Chlora Lindley-Myers (MO); Mike Chaney represented by Andy Case (MS); Mike Causey represented by Jackie Obusek (NC); Jon Godfread represented by Blaine Bergstedt (ND); Eric Dunning (NE); D.J. Bettencourt represented by Christian Citarella (NH); Scott Kipper represented by Nick Stosic (NV); Adrienne A. Harris represented by Robert Kasinow (NY); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Rick Wagnon (OK); Michael Humphreys represented by Jodi Frantz (PA); Elizabeth Kelleher Dwyer (RI); Michael Wise (SC); Scott A. White (VA); Tregenza A. Roach (VI); Kevin Gaffney (VT); Mike Kreidler represented by Jay Bruns (WA); and Nathan Houdek represented by Sarah Smith (WI).

1. Adopted its Spring National Meeting Minutes

Director Lindley-Myers made a motion, seconded by Commissioner Rude, to adopt the Task Force's March 18 (*see NAIC Proceedings – Spring 2024, Climate and Resiliency (EX) Task Force*) minutes. The motion passed unanimously.

2. Heard a Presentation from reThought Flood on its Innovative Flood Insurance Product

Commissioner Lara said this Task Force has prioritized understanding flood risk and recently heard several presentations on flood risks, atmospheric rivers, and innovative parametric insurance products. He said this presentation builds on the themes the Task Force has focused on during the past year, which is bringing together innovation and flood insurance.

Derek Lynch (reThought Flood) said as a flood insurance managing general agent (MGA), the goal of the reThought Flood product is to provide options to increase capacity for flood insurance writers and increase consumer take-up rates. He said reThought was founded in 2017, and the methodology was developed by top actuaries at global reinsurers.

Lynch said the two key pillars to close the protection gap are insurance and mitigation. He said the flood protection gap exists because 1) insurers and reinsurers are concerned about deploying capacity; 2) agents are not confident in selling the value of flood insurance; 3) insureds lack the awareness that they need coverage; and 4) mitigation is seldom employed. He said to close the protection gap, insurers must see that coverage can be provided profitably and sustainably. He said when there is more capacity and more companies writing flood insurance, there will be better coverage and more affordable premiums, which will lead to increased take up. He said this would result in increased premium revenue and insurer profitability. He said in terms of mitigation, technology has allowed companies to better predict what flooding will look like at a building level. He said with this increase in predictability, companies can better educate consumers, insurers, and mitigators on the best mitigation strategy for their specific type of flooding. He said increased mitigation leads to the prevention of flood losses.

Draft Pending Adoption

Lynch said reThought is working on an initiative to provide admitted insurance carriers the tools they need to provide an admitted product with better coverage. He said this coverage would include replacement cost for primary and secondary dwellings; replacement costs for contents; unrestricted basement coverage; additional living and extra expenses; more than one dwelling per policy; more flexible terms and higher limits; broader eligibility for other structures; and broadening the product wherever possible while maintaining affordable premiums. He said the education needed for the rollout of this product includes awareness of the need for coverage; risk-appropriate pricing; education to consumers on their specific risk; timely materials before, during, and after an event; education for agents on how to discuss and sell flood; direct work with customers on attainable mitigation; and mitigation incentives.

Lynch said most of the smaller companies reThought would be working with do not have catastrophe claims experts. He said they plan to work with third-party administrators (TPAs) with experienced adjusters to make sure claims are fast, seamless, and fair. Lynch said regarding rating, historically, most programs, including the National Flood Insurance Program (NFIP), have used flood zones to establish rates. He said that because 40% to 50% of flooding happens outside special flood hazard areas, flood zones for rating are no longer used. He said other approaches include using territory-based mapping, third-party scores, or single models. He said that while models can have holes, artificial intelligence (AI) can help solve this problem by using detailed information about each location or building. He said reThought uses a multiple model approach with its flood resilience score to rate on a building basis.

Director Wing-Heier asked how regulators will know if reThought is working with companies in their state. Lynch said reThought has been reaching out to state insurance regulators to review its product, even when rate filing is not required for flood insurance in that state.

Commissioner Ommen said the private flood insurance market is important because it assists consumers in accessing information about their flood risk and encourages the purchase of flood insurance.

Brickwedde asked how large a mitigation project needs to be to impact rating and the flood resilience score. Lynch said they have a list of homeowner-level mitigations that have been proven to increase resilience, and employment of one of these mitigations would decrease their deductible percentage.

Cabinet Executive Officer (CEO) Richardson asked if there is concern that certain homeowner-level mitigations could increase downstream effects to nearby houses. Lynch said community-level mitigations should be considered and implemented along with homeowner-level mitigation.

Chou asked if reThought has worked with a consulting firm to have its flood model application sent to the Florida Commission on Hurricane Loss Projection Methodology (FCHLPM). Lynch said its model has not been sent for outside review but has been reviewed and accepted by reinsurers and regulators. Chou asked if AI is used to bring in external information into geographic location information to determine total insured value. Lynch said the AI approach lets reThought take additional detailed information and do a better assessment at a building level to find gaps in model data.

Director Lindley-Myers asked what type of commercial business might be able to use this product. Lynch said reThought writes most types of commercial risks. Director Lindley-Myers asked how the pricing of this product is lining up against the NFIP. Lynch said its product is reasonably competitive with NFIP offerings, but reThought offers broader coverage.

Commissioner Gaffney asked if there are regional restrictions to the reThought tools. Lynch said there are no regional restrictions within the U.S. He said because it would require a different data set, the tools cannot be used internationally. Commissioner Gaffney asked if, at some point, consumers would be able to access the general

Draft Pending Adoption

cost for coverage at their property. Lynch said they want to make available assessments of buildings so consumers can get a concept of their risk and make it fast and easy for agents to provide that coverage.

3. Heard a Presentation from Marsh McLennan on the *Global Risks Report 2024*

Lorraine Stack (Marsh McLennan) gave a presentation on Marsh McLennan's *Global Risks Report 2024*, which examines the global insurance markets and identifies current and upcoming risks in both the near future and the longer term.

Stack said that from 2011 to 2014, risk perception was more heavily focused on economic risk. Starting around 2017, environmental risks became more important, and technology risks have recently come into focus. Stack said those surveyed for this report responded that in the near future, top risk concerns include technological concerns, such as misinformation and disinformation and cyber insecurity; environmental concerns, such as extreme weather events and pollution; and societal concerns, such as polarization, lack of economic opportunity, and involuntary migration. She said when focused on a 10-year outlook, many of the concerns were more focused on environmental risks. She said these risks are complex, layered, and highly interconnected, such as extreme weather events leading to involuntary migration.

Stack said two of the major risks where businesses have been seeing an impact are: 1) AI and cyber risks, including AI-generated misinformation, impacts on upcoming elections worldwide, and AI-fueled cyberattacks; and 2) supply chains in distress due to geopolitical impacts and extreme weather events.

Stack said the identified risks in this report could have certain insurance impacts on business, including: 1) capacity withdrawals; 2) changes to policy wording and conditions; 3) differentiated solutions for high-performing customers; and 4) innovation leading to new products.

Stack said insurance may not be available or cost-effective for certain risks in the future. She said they are advising clients to take a longer-term view of risk and build resilience. She said to expect to see growth in alternative risk financing structures, such as risk mutualization, parametric solutions, and captives or special purpose reinsurance vehicles.

4. Received an Update on Deliverables from the Climate Resilience Strategy

Commissioner Lara said the *NAIC National Climate Resilience Strategy for Insurance* (Climate Resilience Strategy) was adopted this year, and the Task Force has begun initial work on some of the deliverables found within the strategy document. One deliverable under Action 1 was to establish a Climate Risk Dashboard. This aligns with the priority to identify and address protection gaps in state insurance markets.

Commissioner Lara said the dashboard is intended to be a tool for regulators, and NAIC staff have made some initial progress in finding sources of data and pulling together information that can be refined by the members. He said this dashboard is very timely for many states that are trying to build further understanding of wildfire risk, convective storm risk, flood risk, and what that means for protection gaps.

Tim Nauheimer (NAIC) provided a high-level update and outlined the next steps for identifying key priorities to develop the dashboard. Nauheimer said NAIC staff have been meeting every two weeks for the past few months to establish a climate risk dashboard framework building off the version that was presented to the Task Force last year. The draft dashboard includes three sections: a physical risk section, a coverage trends section, and a transition risk section. The coverage trends section contains protection gap, affordability, and availability types of measures. He said on bi-weekly calls, NAIC staff collaborated to identify risk indicators for each of the three sections. For each indicator, there is also a trend and risk level. He said the sources and availability of historical

Draft Pending Adoption

data were carefully researched to be able to identify trends and risk levels, and forward-looking modeled data is also considered.

Nauheimer said the next step is to create a regulator-only drafting group to continue developing the dashboard. The group would determine how the dashboard's results would be communicated, and he envisions a public summary of the dashboard with detailed Excel-type metrics that are regulator-only.

5. Received an Update from its Climate Risk Disclosure Workstream

Commissioner Lara said the Climate Risk Disclosure Workstream hosted two meetings this summer. The first meeting, held on June 13, highlighted the best practices for small- and medium-sized companies for completing their climate risk disclosures. The workstream heard from David Carlin (United Nations Environment Programme Finance Initiative—UNEP) and Steven Rothstein (Ceres) on trends in the completion of the disclosure from small- to medium-sized companies. The workstream also heard from Olivia Brindle (The Fidelis Partnership), and Gaby Polanco-Sorto (Gore Mutual Insurance) on each company's processes surrounding its climate risk disclosure filing.

Commissioner Lara said the second meeting was a presentation from Ceres on its report on the climate risk disclosure survey analysis. He said this is the second year that Ceres has conducted this analysis, and its report is based on the disclosure responses of 516 insurance groups. It examines the progress and remaining challenges these groups have shown in integrating climate-focused strategies throughout their governance and risk management processes. Commissioner Lara said recordings of these meetings can be found on the NAIC Climate Risk and Resiliency Resource Center. He said the workstream will continue to look for ways to provide education for companies on best practices for completing their climate risk disclosure, as well as providing sessions to hear from those analyzing the contents of the disclosures.

6. Received a Federal Update

Shana Oppenheim (NAIC) summarized several key legislative proposals in Congress related to disaster resilience and insurance. Additionally, she covered other congressional activities, including relevant hearings, as well as some recent Federal Emergency Management Agency (FEMA) activities, events from the Federal Housing Finance Agency (FHFA) and the U.S. Department of Housing and Urban Development (HUD), some interest on the Property & Casualty Insurance Market Intelligence (PCMI) Data Call from Capitol Hill, the U.S. Securities and Exchange Commission's (SEC's) disclosure reporting rule, and the U.S. Department of the Treasury's (Treasury Department's) actions and initiatives from the White House.

Oppenheim said on the legislative side, the Homeowners' Defense Act allows the Treasury Department to guarantee debt issued by state catastrophe insurance programs that support the private insurance market and offer residential property insurance. She said a Senate bill on flood insurance premiums proposes an above-the-line tax deduction for flood insurance premiums to make coverage more affordable. She said the Prevent Environmental Hazards Act (H.R. 8637) authorizes NFIP payouts for structures condemned due to chronic erosion or unusual flooding, allowing advance payouts for demolition or relocation. She said the Fix Our Forests Act aims to streamline permitting processes for forest management projects to mitigate wildfire risks by expediting reviews and reducing litigation delays, and the Disaster Resiliency and Coverage Act of 2024 (H.R. 7849) proposes a federal grant program providing a 30% tax credit and up to \$10,000 in incentives for homeowners in disaster-prone regions, with several revisions to empower state regulators and focus on mitigation efforts.

Oppenheim said in congressional actions, Sen. Elizabeth Warren (D-MA) and Rep. Sean Caston (D-IL) have urged federal banking regulators to address climate-related financial risks, citing data gaps and modeling challenges. She said they have accused federal U.S. regulators of hindering global climate-risk standards and have pressed for explanations from the Federal Deposit Insurance Corporation (FDIC) and the Office of the Comptroller of the

Draft Pending Adoption

Currency (OCC). Federal Reserve Chair Jerome Powell has publicly stated that the Federal Reserve does not intend to be a climate policymaker.

Oppenheim said Capitol Hill remains interested in the PCMI Data Call. She said U.S. Secretary of the Treasury Janet Yellen was testifying on international monetary markets during a recent House hearing, and Casten raised concerns with the progress and scope of the NAIC's data collection. He suggested that the federal government engage in more oversight of insurers through the Financial Stability Oversight Council in light of increasing property insurance premiums and natural disasters. Additionally, the Senate Budget Committee held a hearing on June 5 titled "Riskier Business: How Climate Is Already Challenging Insurance Markets," where democratic witnesses highlighted the negative impacts of climate change on the property/casualty (P/C) insurance market, while Republicans focused on inflation's role in driving insurance premiums. She said Sen. Harry Reid (D-NV) did a great job at discussing rising insurance premiums, proactive mitigation, supporting competitive markets, and sensible regulation.

Oppenheim said regarding federal agencies, HUD and FHFA have continued to express interest in the issue of affordability, specifically in multi-family housing, and the insurance and resilience piece involved. She said they have held several symposiums in Washington, DC, over the past several months, engaging relevant stakeholders. Additionally, following February seller's guide clarifications, the FHFA began engaging stakeholders to address property insurance requirements. She said they have met with various stakeholders to discuss compliance challenges related to replacement cost value versus actual cost value and are continuing to engage on that and expects further outreach on that issue.

Oppenheim said the Treasury Department held round tables with insurers reinsurers, and catastrophe (CAT) modeling firms to discuss natural catastrophe risks in the U.S. insurance markets, as well as the PCMI Data Call. She said Sen. Jackie Rosen (D-NV) sent a letter to the Federal Insurance Office (FIO), urging action on the rising costs and decreased availability of insurance for homeowners.

Oppenheim said the House Financial Services Subcommittee on Oversight Investigations held a field hearing to discuss the SEC's climate disclosure rule, marking the first official hearing since the SEC updated its rule in March to remove the requirement at disclosure for scope three emissions. Also, in March, the 5th U.S. Circuit of Court of Appeals temporarily halted the SEC's climate reporting rule due to compliance costs concerns from the regulated companies and arguments from the U.S. Chamber of Commerce. She said the SEC paused the rule, pending legal challenges, and the House Financial Services Committee has to continue to hold hearings criticizing the SEC's rule.

Oppenheim said the White House awarded \$120 million to Tribal Nations for 146 climate resilience projects, addressing sea level rise, wildfire, and drought, while trying to incorporate indigenous knowledge. She said there is a new flood protection rule through HUD, which is the Federal Flood Risk Management Standard, and it expands flood plains and imposes stricter requirements on federally backed housing construction, though developers have expressed concerns about increased costs. She said the administration has also introduced a heat and health index tool to identify heat-related risks by zip code, launched a climate capital guidebook to help climate-related startups and small businesses access federal funding, and launched a new beta website and mapping tool to help users identify high flood risk areas.

Oppenheim said FEMA has been active in this space, transferring NFIP risk to the reinsurance and capital markets, offering funding through Swift Current, and offering regional catastrophe preparedness grants. She said FEMA has also finalized a rule requiring projects to use its funds to consider future flood risks exacerbated by the changing climate. Effective Sept. 9, this standard mandates that plans reflect future flood risks based on the best available science with studies showing that every dollar spent on resilience saves one dollar in future damages.

Draft Pending Adoption

Having no further business, the Climate and Resiliency (EX) Task Force adjourned.

SharePoint/NAIC Support Staff Hub/Committees/EX CMTE/CRTF/2024_Summer/crtf-minutes-0815 DRAFT