

Draft Pending Adoption

Attachment
Property and Casualty Insurance (C) Committee
12/15/21

Draft: 12/16/2021

Joint Meeting of the Catastrophe Insurance (C) Working Group
and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group
San Diego, California
December 12, 2021

The Catastrophe Insurance (C) Working Group and the NAIC/FEMA (C) Advisory Group of the Property and Casualty Insurance (C) Committee met in joint session Dec. 12, 2021. The following Working Group and Advisory Group members participated: Mike Chaney, Chair (MS); Katie Hegland (AK); Jimmy Harris (AR); Ken Allen (CA); George Bradner and Wanchin Chou (CT); Susanne Murphy (FL); Martha Im (HI); Doug Ommen (IA); Susan Berry (IL); Heather Droge (KS); Warren Byrd (LA); Joy Hatchette (MD); Jo LeDuc (MO); Tracy Biehn (NC); Tom Botsko (OH); TK Keen (OR); David Buono (PA); Megan Mihara (RI); Mark Worman (TX); Trey Hancock (TN); David Forte (WA); and Allan L. McVey (WV).

1. Adopted the Catastrophe Insurance (C) Working Group's Summer National Meeting Minutes

Mr. Byrd made a motion, seconded by Mr. McVey to adopt the Catastrophe Insurance (C) Working Group's July 22 minutes (see *NAIC Proceedings – Summer 2021, Property and Casualty Insurance (C) Committee, Attachment XX*). The motion passed unanimously.

2. Adopted the NAIC/FEMA (C) Advisory Group's Nov. 15 Minutes

Ms. LeDuc made a motion, seconded by Commissioner Ommen, to adopt the NAIC/FEMA (C) Advisory Group's Nov. 15 (*Attachment XX*) minutes. The motion passed unanimously.

3. Heard a Report from FEMA on Risk Rating 2.0

David Maurstad (FEMA) said more frequent and intense flooding events are occurring due to changing weather patterns. He said the Risk Rating 2.0 rating system is fair, equitable, and designed to adapt to the changing weather patterns.

The National Flood Insurance Program (NFIP) recognizes there are still concerns about Risk Rating 2.0. It is important to note that under the legacy NFIP pricing scheme, all policyholders have seen an average increase of 11% per year over the past number of years and would have continued to see increases year after year had Risk Rating 2.0 not been implemented. Risk Rating 2.0 takes an individual property's unique flood risk into consideration.

With the use of advanced technological and mapping capabilities, Risk Rating 2.0 will provide a property's true flood risk and equip property owners with the information they need to make informed decisions about mitigation actions. The new rating methodology has also exposed long-standing inequities in the pricing of flood insurance. Under the legacy rating system, people in lower value homes were paying more than they should have been paying, and people with higher value homes were paying less than they should have been paying. Risk Rating 2.0 will correct these inequities.

Two-thirds of the oldest Pre-Flood Insurance Rate Map (Pre-FIRM) homes have some of the highest flood insurance rates in the NFIP today. The implementation of Risk Rating 2.0 will correct this problem, and approximately one-fourth, or a little more than 1 million, of NFIP policyholders will see a decrease in their insurance costs. There will also be comparable premium increases for some policyholders. In the case of premium increases, a premium will not increase more than 18% per year.

The NFIP has taken a phased approach to the implementation of Risk Rating 2.0. Phase I began by allowing existing NFIP policyholders to take advantage of premium decreases on their renewal date, beginning Oct. 1. Additionally, new policies began being sold on Oct. 1. The premiums for new policies will no longer be subsidized by the NFIP, and the full-risk rate will be paid. Premiums will increase 18% per year until the full-risk rate has been achieved.

As of Dec. 5, the NFIP has sold more than 52,500 new policies under Risk Rating 2.0, and 4,800 NFIP policyholders have renewed their coverage. Under Risk Rating 2.0, 81% of renewals have seen a decrease in premium as compared to their prior NFIP premium, which reflects an average savings of \$1,600 per year, or \$139 per month. For those seeing a price increase, the

Draft Pending Adoption

Attachment
Property and Casualty Insurance (C) Committee
12/15/21

increase is an average of \$139 per year, or \$13 per month, and the median cost for single-family homes with maximum coverage is \$764.

Phase II of Risk Rating 2.0 will begin April 1, 2022. Under Phase II, all NFIP policies will be written under Risk Rating 2.0 on their renewal date. This phase will end on March 31, 2023, allowing policyholders extra time to prepare.

Risk Rating 2.0 includes the capability and tools to incorporate flood risk variables, such as multiple flood frequencies beyond the 1% annual chance events. These events include: 1) river overflow; 2) storm surge; 3) coastal erosion; and 4) heavy rainfall. Risk Rating 2.0 also takes a property's characteristics into account, such as distance to a water source and the cost to rebuild.

Risk Rating 2.0 incorporates private sector data sets, catastrophe modeling, and evolving actuarial science. FEMA mapping in conjunction with NFIP policy and claims data is used in Risk Rating 2.0. Data obtained from the National Oceanic and Atmospheric Administration (NOAA), the United States Geological Survey (USGS), and the U.S. Army Corps of Engineers is also used, as well as additional third-party commercially available structural and replacement cost data.

The NFIP is upholding the statutory limits of 18% increases per year. Things that will not change with Risk Rating 2.0 include: 1) flood plain management; and 2) premium discounts for Pre-FIRM subsidized and newly mapped properties. Additionally, policyholders will still be able to transfer their rate discount to a new owner by assigning the flood insurance policy when the property ownership changes.

Discounts from 5% to 45% for policyholders in communities that participate in the Community Rating System (CRS) will continue. However, the discount will be applied uniformly to all policies throughout the participating community regardless of whether the structure is inside or outside the Special Flood Hazard Area (SFHA).

Mr. Maurstad said one misconception under the old rating system is that insurance rates are not subject to regular increases. He said rates increased every year for all policyholders prior to Risk Rating 2.0. Last year, the NFIP premiums increased by an average of 11.3%, which is approximately \$8 per month.

Mr. Maurstad said under the new pricing structure, two-thirds of the policyholders will see a \$0 to \$10 per month increase in their flood insurance premiums. Seven percent of NFIP policyholders will see an increase of \$10 to \$20 per month. Four percent of the NFIP policyholders will see a \$20 or more increase in their flood insurance premium per month. The \$20 or more increases are for higher valued homes and homes in high-risk areas; this is also true under the NFIP legacy rating system.

Under the legacy rating system, 35,000 single-family policyholders have been seeing increases of more than \$100 per month. The single-family homeowners in this group have an average replacement cost of \$399,643. Under Risk Rating 2.0 only 3,246 single-family policyholders will see premium increases of more than \$100 per month. However, the single-family homeowners in this group have a replacement cost value of more than \$1 million. Currently, 3,000 single-family policyholders pay a premium between \$12,000 and \$45,000. Risk Rating 2.0 has an upper bound that limits cost on the highest end of the spectrum. Under Risk Rating 2.0, policyholders will pay no more than \$12,125 for their policies.

Mr. Maurstad said stakeholders have weighed in on the impact that Risk Rating 2.0 will have on communities and policyholders. The National Association of Realtors (NAR), representing 1.4 million policyholders, backs the new pricing methodology and acknowledges that Risk Rating 2.0 will help ensure that NFIP policyholders pay premiums proportionate to their property's risk.

Mr. Maurstad said affordability was an issue under the NFIP legacy rating system and will continue to be a concern under Risk Rating 2.0. He said the NFIP believes that the affordability framework released in 2018 will continue to be a valuable resource. President Joe Biden's budget for fiscal year 2022 includes a legislative proposal, which, if approved, would establish a target means tested assistance program offering low- and moderate-income policyholders a graduated premium discount benefit. FEMA would implement the program so that the eligible low to moderate income policyholders see both the full-risk price and the means-tested assistance they receive so that they understand their full risk. The NFIP will continue to work with the administration's team and the U.S. Congress on ways to reduce barriers to flood insurance and address mitigation options to achieve resiliencies for all communities.

Draft Pending Adoption

Attachment
Property and Casualty Insurance (C) Committee
12/15/21

Mr. Bradner asked how the gap can be fixed that many people fall into with not having the appropriate coverage, as it is important for consumers to know what their risk is. He said originally there was a scoring methodology to help people understand their risk and make an informed decision.

Mr. Maurstad said part of the unintended consequences originally associated with establishing the mandatory purchase area was that if a homeowner's property was in that area, then they had flood risk and were required to buy flood insurance; if a homeowner's property was outside that area, they had no risk and were not required to buy flood insurance. Risk Rating 2.0 recognizes a graduated risk throughout a community, and the pricing of the premium reflects this risk.

Mr. Maurstad reminded Working Group and Advisory Group members that the NFIP not only provided flood insurance, but also it was responsible for flood plain management, mitigation assistance grants, and flood risk mitigation. He said the NFIP is also making changes in the way it communicates flood risk. The NFIP is working with Congress through the reauthorization process on communication changes.

Mr. Maurstad said he believes Risk Rating 2.0 promotes mitigation in a different way than it has in the past. As people better understand their flood risk, especially those outside the high-risk area, homeowners will be encouraged to take mitigation actions to make their property safer and more resilient to flood events, to protect their property, and to protect their family from the devastating impacts of flood risk. Some areas will see less of an impact on premiums due to mitigation efforts.

Mr. Byrd said it was his understanding that an elevation certificate was no longer needed, but NFIP charts indicate first-floor elevation. He asked how this will be determined. Mr. Maurstad said the elevation certificate will no longer be required because the NFIP is getting first-floor data from a commercial vendor. He said if someone already has an elevation certificate, or if someone believes that an elevation certificate makes sense for them, the NFIP will use the information on their elevation certificate if it is to their benefit.

Mr. Byrd asked if there were any conditions on the transfer of flood insurance rate to a new homeowner if the property is sold. Mr. Maurstad said there were no conditions.

Mr. Chou asked about the catastrophe model evaluation process. Mr. Maurstad said the NFIP takes the catastrophe models and evaluates each individual model for its strengths and differences. Each model is evaluated against the known flood risk data. Mr. Maurstad said he will FEMA's actuaries follow-up with more detailed information.

4. Heard a Report from FEMA on FEMA Structure and Regional Flood Insurance Specialists

Edith Lohmann (FEMA) said FEMA's headquarters are in Washington, DC. However, there are 10 regional offices across the country broken down by state. There is at least one flood insurance specialist assigned to each FEMA region. Each of the regional offices acts as a liaison to FEMA headquarters and work in concert with the headquarter teams. The FEMA regional offices give FEMA the opportunity to have a local presence where they can customize and tailor their activities and outreach to their customers and partners in the various states.

Ms. Lohmann said regional flood insurance specialists work with consumers regarding questions and problems related to flood insurance. Flood insurance specialists also work with their partners, such as the NAIC and the departments of insurance (DOIs), as well as property owners, renters, real estate agents, lenders, appraisers, local insurance agents, surveyors, engineers, builders, or anyone else who is interested in flood insurance as a mitigation option to reduce disaster suffering.

Ms. Lohmann said flood insurance specialists are instrumental in assisting and facilitating the implementation of the NFIP's program changes, such as Risk Rating 2.0, flood map changes, flood mitigation projects, or a new development that is being built in a particular community. Flood insurance specialists work closely with their federal, state, local, tribal partners, and DOIs.

Ms. Lohmann said flood insurance specialists do a lot of outreach and education and training. She said they also provide technical assistance to individuals or groups of consumers in public settings. Ms. Lohmann said flood insurance specialists can provide clarity on any types of claims, underwriting, or policy coverage questions or issues that arise. She said flood insurance specialists are available to provide support before, during, and after disasters. Ms. Lohmann said flood insurance specialists

Draft Pending Adoption

Attachment
Property and Casualty Insurance (C) Committee
12/15/21

participate in public awareness events and all types of activities. She encouraged state insurance regulators to reach out to their regional flood insurance specialist.

5. Received an Update on the NAIC Catastrophe Resource Center

Jennifer Gardner (NAIC) showed the location of the Catastrophe Resource Center. She highlighted the catastrophe contact list and asked states that were not on this list to reach out to NAIC staff to provide this information. Ms. Gardner explained each of the tabs located on the page, as well as the information available.

6. Heard an Update on Hurricane Ida

Mr. Byrd said Hurricane Ida struck on the 16th anniversary of Hurricane Katrina. Hurricane Ida was close to being a Category 5 hurricane. He said AIR Worldwide's original insured losses to onshore property were somewhere between \$17 billion and \$25 billion. These estimates include physical damage to residential, industrial, and commercial properties, as well as automobile losses. The estimates do not include flood damage and are based on the current higher material costs. AIR Worldwide estimates an additional cost to insurers of \$2.5 billion to \$5 billion for inland flood losses.

Karen Clark & Company (KCC) estimated insured losses to be nearly \$18 billion, with only \$40 million of these costs for losses in the Caribbean and the rest for losses in the U.S. These estimates include physical damage to residential, industrial, and commercial properties, as well as automobile losses.

Temporary adjusters were hired to help after the disaster, and Louisiana has issued or reinstated licenses to 14,625 adjusters to help in this effort. Four thousand three hundred and seventy-five of these licenses are for catastrophe adjuster registrations, which is not a full license, but an insurer can advise the state if it is bringing on additional catastrophe adjusters.

As of Nov. 15, Louisiana had a total of 116,112 actively licensed claims adjusters, which is an increase of approximately 12,000 adjusters in a two-and-a-half-month period. One-thousand five hundred and eighty licenses per month are being issued.

Mr. Byrd said Commissioner James J. Donelon (LA) issued Emergency Rule 47 for the 25 parishes that were affected by Hurricane Ida. Emergency Rule 47 provided for the suspension of certain statutes related to all types of insurance and all types of insurers doing business in Louisiana. However, reinsurers were not included. The statutes suspended included: 1) inability to cancel; 2) inability to terminate; 3) non-renewal; and 4) non-reinstate. Emergency Rule 47 protected policyholders from cancellation for non-payment of premium until after the emergency rule expired on Oct. 24; insurance could also not be cancelled solely due to filing a claim because of Hurricane Ida.

Bulletin number 2021-07 was also issued to address the issue of the civil authority loss of use. This is typically in effect for a maximum of 14 days and allows for extra expenses. One insurer took the DOI to task on this and is awaiting a final judgement. Commissioner Donelon issued Directive 218, telling insurers to honor reasonable expenses incurred for evacuation.

Bulletin 2021-08 and Bulletin 2021-09 were also issued. These bulletins reminded insurers to be careful of how they adjusted claims with the policyholder, including to treat the policyholder with respect throughout the adjusting process. Louisiana has a policyholder Bill of Rights set forth in their insurance code, and the bulletins called attention to the bill of rights. The bill of rights requires an adjuster's report to be given to the policyholder if the policyholder requests the report.

Louisiana has a provision in its law stating a claim is to be initiated in 14 days. However, if a catastrophe occurs that changes to 30 days, the commissioner can extend it an additional 30 more days. This was done in Emergency Rule 47 and was extended to 60 days. Hurricane Ida could not be used for cancellation and non-renewal and could not be used as a material change in a policyholder's risk.

Mr. Byrd said Louisiana did allow insurers in first-party claims to deduct any unpaid premium when they adjusted the claim. He said they cautioned insurers that there are two statutes on the books in Louisiana that require insurers to pay any undisputed portion of a claim within 30 days from satisfactory proof of loss. The insurers were cautioned that they would be exposing themselves to time-and-a-half damages plus attorney fees if this time frame was not met.

Draft Pending Adoption

Attachment
Property and Casualty Insurance (C) Committee
12/15/21

Mr. Byrd said Louisiana issued a data call to insurers. This is referenced in Bulletin 2021-10. The first report is due in January 2022. As of Nov. 28, the total NFIP claims paid totaled \$869 million. The highest number of claims were filed in Louisiana; Louisiana had 14,230 claims.

Mr. Byrd said complaints totaled 3,003. Most of the complaints encompassed: 1) adjusters not calling policyholders back; 2) changes in adjustment; and 3) not having any payment whatsoever for what the policyholder deemed to be undisputed portions of their claim.

7. Received a Report on the Update of the *Catastrophe Modeling Handbook*

Ms. Gardner said the Catastrophe Insurance (C) Working Group met virtually in November to discuss the directive it received from the Climate and Resiliency (EX) Task Force to update the *Catastrophe Modeling Handbook*. The Working Group directed NAIC staff to send a survey to all states to obtain information regarding how the current *Catastrophe Modeling Handbook* is being used and what needs to be updated. NAIC staff received responses from 20 states.

The survey results indicated the sections regarding “General Overview of Catastrophe Models,” “Model Input Provided by Company,” “Model Output,” and “Model Validation and Update” were all sections of the handbook that are helpful to state insurance regulators.

The survey additionally asked if a state used the questions included in the handbook regarding evaluation of models. These questions include items a state insurance regulator would ask of the catastrophe model vendor and of an insurer that was using the model. The responses showed that eight states use the questions currently. Eight states do not use the questions, and four states indicated they used some of the questions.

The survey also asked if it would be helpful to include questions specific to other perils and asked members to name the perils they would like to see included. The most common responses were for flood and wildfire followed by severe convective storm.

These results represent a small sample of the information received in the surveys. NAIC staff are analyzing the results and putting together a summary for the drafting group to consider as it works through the updates to the handbook.

Ms. Gardner said a few regulators offered to participate in a drafting group to review the survey responses and work on the handbook revisions. She said if anyone would like to join that drafting group, contact Aaron Brandenburg or Sara Robben. The first drafting group meeting will take place in January 2022.

8. Discussed Future Engagements with FEMA

The Advisory Group plans to work with FEMA on future events. These events include a FEMA meeting for FEMA Region 6. This event will be hosted by Oklahoma sometime in the first quarter of 2022. If any other regions would like to hold a similar event, please let Commissioner Glen Mulready (OK) know.

The Missouri DOI will be hosting an earthquake event May 23–May 25, 2022. This event will be held in St. Louis, MO.

The Advisory Group will hear an update regarding the Cascadia Rising 2022 national event during a future meeting.

Future topics for discussion and presentation include: 1) the NFIP CRS and how state insurance regulators can work with their communities in improving those CRS ratings; 2) the latest data on the private flood insurance market and the NFIP; and 3) a report from the National Insurance Crime Bureau (NICB) about the geospatial insurance consortium and how state insurance regulators might be able to use this technology during disasters.

[12 CatFEMA Minutes.docx](#)