



Draft date: 11/28/22

*2022 Fall National Meeting
Tampa, Florida*

CLIMATE AND RESILIENCY (EX) TASK FORCE

Thursday, December 15, 2022
10:30 a.m. – 12:00 p.m.
JW Marriott—Tampa Bay Ballroom 5-9—Level 4

ROLL CALL

| | | | |
|--|----------------------|----------------------|--------------------|
| Ricardo Lara, Co-Chair | California | Grace Arnold | Minnesota |
| David Altmaier, Co-Chair | Florida | Mike Chaney | Mississippi |
| Colin M. Hayashida, Co-Vice Chair | Hawaii | Chlora Lindley-Myers | Missouri |
| James J. Donelon, Co-Vice Chair | Louisiana | Troy Downing | Montana |
| Kathleen A. Birrane, Co-Vice Chair | Maryland | Edward M. Deleon | N. Mariana Islands |
| Barbara D. Richardson, Co-Vice Chair | Nevada | Guerrero | |
| Andrew R. Stolfi, Co-Vice Chair | Oregon | Eric Dunning | Nebraska |
| Elizabeth Kelleher Dwyer, Co-Vice Chair | Rhode Island | Marlene Caride | New Jersey |
| Mark Fowler | Alabama | Adrienne A. Harris | New York |
| Lori K. Wing-Heier | Alaska | Mike Causey | North Carolina |
| Peni Itula Sapini Teo | American Samoa | Jon Godfread | North Dakota |
| Alan McClain | Arkansas | Judith L. French | Ohio |
| Michael Conway | Colorado | Glen Mulready | Oklahoma |
| Andrew N. Mais | Connecticut | Michael Humphreys | Pennsylvania |
| Trinidad Navarro | Delaware | Alexander S. Adams | Puerto Rico |
| Karima M. Woods | District of Columbia | Vega | |
| Dana Popish Severinghaus | Illinois | Michael Wise | South Carolina |
| Doug Ommen | Iowa | Carter Lawrence | Tennessee |
| Sharon P. Clark | Kentucky | Kevin Gaffney | Vermont |
| Timothy N. Schott | Maine | Tregenza A. Roach | Virgin Islands |
| Gary D. Anderson | Massachusetts | Scott A. White | Virginia |
| Anita G. Fox | Michigan | Mike Kreidler | Washington |
| | | Nathan Houdek | Wisconsin |
| | | Jeff Rude | Wyoming |

NAIC Support Staff: Jennifer Gardner

AGENDA

1. Consider Adoption of its Summer National Meeting Minutes Attachment One
Superintendent Elizabeth Kelleher Dwyer (RI)

2. Receive an Update on NAIC Activities Related to Climate Risk and Resiliency—*Superintendent Elizabeth Kelleher Dwyer (RI)*
3. Discuss State Actions to Incentivize Mitigation and Resiliency—*Superintendent Elizabeth Kelleher Dwyer (RI)*
4. Hear a Federal Update—*Ethan Sonnichsen (NAIC)*
5. Hear an International Update—*Ryan Workman (NAIC)*
6. Discuss Any Other Matters Brought Before the Task Force—*Superintendent Elizabeth Kelleher Dwyer (RI)*
7. Adjournment

Draft: 8/17/22

Climate and Resiliency (EX) Task Force
Portland, Oregon
August 11, 2022

The Climate and Resiliency (EX) Task Force met in Portland, OR, Aug. 11, 2022. The following Task Force members participated: Ricardo Lara, Co-Chair, Mike Peterson, and Bryant Henley (CA); David Altmaier, Co-Chair, and Christina Huff (FL); Colin M. Hayashida, Co-Vice Chair, represented by Martha Im (HI); James J. Donelon, Co-Vice Chair, and Tom Travis, (LA); Kathleen A. Birrane, Co-Vice Chair, and Alex Borkowski (MD); Barbara D. Richardson, Co-Vice Chair (NV); Andrew R. Stolfi, Co-Vice Chair, represented by Aeron Teverbaugh and Brian Fordham (OR); Elizabeth Kelleher Dwyer, Co-Vice Chair, and Beth Vollucci (RI); Lori K. Wing-Heier represented by Sian Ng-Ashcraft (AK); Mark Fowler and Brian Powell (AL); Alan McClain (AR); Michael Conway represented by Peg Brown (CO); Andrew N. Mais, Wanchin Chou, and George Bradner (CT); Karima M. Woods represented by Sharon Shipp (DC); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus and C.J. Metcalf (IL); Sharon P. Clark (KY); Timothy N. Schott represented by Sandra Darby (ME); Anita G. Fox represented by Chad Arnold (MI); Grace Arnold represented by Peter Brickwedde (MN); Chlora Lindley-Myers represented by Cynthia Amann (MO); Edward M. Deleon Guerrero (MP); Mike Chaney and Andy Case (MS); Troy Downing represented by Bob Biskupiak (MT); Mike Causey represented by Tracy Biehn and Angela Hatchell (NC); Jon Godfread represented by Chris Aufenthie and John Arnold (ND); Eric Dunning and Connie Van Slyke (NE); Adrienne A. Harris represented by Harriette Resnick (NY); Judith L. French, Tom Botsko and Lori Barron (OH); Michael Humphreys represented by Melissa Greiner (PA); Alexander S. Adams Vega (PR); Michael Wise (SC); Carter Lawrence represented by Bill Huddleston and Stephanie Cope (TN); Scott A. White (VA); Tregenza A. Roach represented by Cheryl Charleswell and Glendina Matthews (VI); Kevin Gaffney and Rosemary Raszka (VT); Mike Kreidler (WA); Nathan Houdek (WI); and Jeff Rude (WY). Also participating were: Weston Trexler (ID); Anna Krylova (NM); Tracy Klausmeier (UT); and Tomasz Serbinowski (UT).

1. Adopted its Spring National Meeting Minutes

Commissioner Donelon made a motion, seconded by Ms. Clark, to adopt the Task Force’s Spring National Meeting minutes (*see NAIC Proceedings – Spring 2022, Climate and Resiliency (EX) Task Force*). The motion passed unanimously.

2. Received Reports from its Workstreams

a. Solvency Workstream

Commissioner Birrane said the Solvency Workstream developed three referrals. The referrals—to the Financial Analysis Solvency Tools (E) Working Group (Attachment One), the Financial Examiners Handbook (E) Technical Group (Attachment Two), and the Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup (Attachment Three)—provide high-level principles for the groups to consider and develop as appropriate for inclusion in relevant financial solvency regulation manuals. The referrals will be taken up by the groups following the Summer National Meeting, where they will be discussed by the members before determining how to implement any revisions.

b. Innovation Workstream

Commissioner Altmaier said the Innovation Workstream met May 16 to hear from Zurich North America regarding a commercial builder's risk policy that includes a weather-based parametric feature.

The Workstream also met July 27 to hear a presentation from representatives with AXA; Guy Carpenter; and Raincoat, the parametric technology solution provider. Presenters described the Mexican Tripartite Project, created through a public-private partnership including the Insurance Development Forum to design a parametric insurance solution for climate-vulnerable farmers in Mexico, supported by investments in long-term risk finance and insurance market development.

c. Technology Workstream

Commissioner Donelon said the Technology Workstream met June 9 to hear a presentation from Harold Brooks (National Oceanic and Atmospheric Administration—NOAA) on how the NOAA uses predictive software to identify upcoming weather events, particularly severe convective storms. He also shared the results of the NOAA's research and findings regarding early warning systems used to warn people ahead of storms so they have adequate time to take shelter.

d. Pre-Disaster Mitigation Workstream

Commissioner Richardson said the Pre-Disaster Mitigation Workstream has met several times since the Spring National Meeting. During its meeting in May, which is wildfire awareness month, Lenya Quinn-Davidson (Northern California Prescribed Fire Council) spoke about vegetation management through prescribed fire, including opportunities, challenges, and regional differences with implementation throughout the country.

Commissioner Richardson said the Workstream met again on June 3 to hear a presentation from the U.S. Forest Service (USFS). The State and Private Forestry (S&PF) organization of the U.S. Department of Agriculture (USDA) works with states, tribes, communities, and non-industrial private landowners to provide technical and financial assistance to landowners and resource managers. Federal funding and resources are available to support fuel reduction and prescribed fire. She said the Workstream co-hosted a trip with the Center for Insurance Policy and Research (CIPR) to Richburg, SC, to tour the Insurance Institute for Business & Home Safety (IBHS). Ms. Richardson said Roy Wright (IBHS) and his team showed the state insurance regulators the great work at the IBHS facility to study mitigation science. The state insurance regulators in attendance spent a day and a half going between the lab and the classroom, where they discussed how fraud and misconceptions about property insurance are the two leading causes of consumer complaints after catastrophic events. They discussed opportunities to work collaboratively to address consumer complaints through outreach and education. State departments produce consumer information to combat fraud, increase consumers' understanding of insurance coverage, and incentivize risk mitigation. State insurance regulators will continue to collaborate with the IBHS to share a consistent message with consumers and promote awareness to a broader audience.

e. Climate Risk Disclosure Workstream

Superintendent Dwyer said the Climate Risk Disclosure Workstream has not met since the Spring National Meeting. However, it hosted two events to assist insurers required to submit the new climate risk disclosure survey. The Principles for Responsible Investment (PRI) presented the first session on June 9. Ceres and the United Nations Environment Programme Finance Initiative (UNEP FI) presented the second event on July 27. Ceres will conduct four additional events on the topic leading up to the Nov. 30 submission deadline.

3. Heard a Panel Presentation Regarding Wildfire Mitigation

Mr. Wright (IBHS) said IBHS has a full-scale testing facility in Richburg, SC, allowing IBHS staff to test the impact of various perils on the built environment. He said the environment needs wildfire, but when it intrudes on the built environment, it becomes a disaster.

At IBHS, engineers and staff are testing the impact of ember accumulation, length of flame, and radiant heat on building materials and landscape design to determine methods for reducing the risk of future loss. Ninety percent of emissions are from embers landing on a building; a much smaller proportion of fires begin due to radiant heat. Through the research at IBHS, it has identified multiple actions property owners can take to lower the risk of loss and make the property more resilient to wildfire. All actions should be done in tandem, including using a Class A fire-rated roof, adding mesh to vents, and clearing away all combustible materials within 5 feet of the property. These actions done in tandem ensure that fire breaks are sufficient to reduce conflagration of the fire. Mr. Wright said that in California, 99.2% of homes already have a Class A fire-rated roof. These actions are the integral components of reducing fire risk, but there are additional actions property owners can take to further reduce the risk of loss. These include using combustible siding; enclosing eaves and under bay windows; using fire-resistant decking materials, windows, and doors; covering gutters; and moving outbuildings at least 30 feet from the main building.

With other perils such as tornadoes, floods, and hail, property damage occurs individually. However, in the case of wildfire, the resilience of neighboring structures and the community matters. Wildfires are unique due to the conflagration of loss; if one structure burns, the risk of loss for adjacent structures increases exponentially. If there are natural firebreaks around the perimeter of the community, if communities work together to reduce the brush and eliminate fuels to stop fire from spreading, they have better odds of limiting the path of destruction. If 80% to 90% of the homes in the neighborhood meet the standards outlined in the IBHS Wildfire Prepared Home program, it will improve the community's likelihood of avoiding devastation from wildfire.

Amy Bach (United Policyholders—UP) said UP has been guiding consumers to help them understand their insurance policies and advocating for fair sales and claims practices for 31 years. She said after seeing market disruptions take place following deadly wildfires in several western states, UP began working on its Roadmap to Recovery. The Roadmap to Recovery program was designed to work with consumers and state insurance regulators to resolve insurance coverage and claim issues. The Roadmap to Preparedness program is designed to encourage consumers to be prepared for disasters by mitigating risks where possible, insuring properties to value, shopping for coverage, and maintaining an inventory of belongings. Ms. Bach said that extreme weather events are affecting the property/casualty (P/C) market by increasing claims and losses and reducing the availability and affordability of coverage. She said that while knowledge is critical to resolving some of the coverage issues, there are concerns that more knowledge may also have negative effects on existing properties deemed to be higher risk than others. Mitigation is critical, and understanding the components of risk reduction is essential to reducing the risk and improving the affordability and availability of insurance.

Ms. Bach said UP formed the Wildfire Risk Reduction and Asset Protection Project (WRAP) to convene a group of public and private stakeholders around a central purpose of reducing wildfire risk and restoring the insurance market in California. She said her organization is focused on building incentives to reward mitigation action through premium discounts, better risk scores, non-renewal protection, and safer homes and communities. This is all happening through grant programs and regulatory action taken by state insurance departments. These collaborative efforts have resulted in significant increases in funding for wildfire risk reduction, new resources to promote mitigation and preparedness, research on wildfire risk reduction methodologies, and insurer incentives for risk reduction—including mitigation discounts and protection from non-renewals and cancelled policies.

Mr. Peterson said in 2019, Commissioner Lara began hosting town hall meetings to speak with local constituents about the impact of wildfire for state residents. He said the primary question from consumers was: How do we make sure this never happens to us again? The California Department of Insurance (DOI) went to work developing relationships with the state agencies responsible for fire protection and suppression. The California DOI formed a partnership with Gov. Gavin Newsom's administration, including the Governor's Office of Emergency Services (CalOES), the California Department of Forestry and Fire Protection (CAL FIRE), the Office of Planning and Research, and the California Public Utilities Commission (CPUC). The groups convened on a regular basis for a year and then launched their Safer from Wildfires framework in February 2022. Over that time, the organizations evaluated methodologies found in multiple research studies, including the *Application of Wildfire Mitigation to Insured Property Exposure* developed by the CIPR, among others. They compared the wildfire risk reduction methodologies among the various research and compiled a list of key actions to reduce the risk of wildfire: 1) having a Class A-rated roof; 2) providing 5 feet of defensible hardscape around the perimeter of the home; 3) having 6 inches of noncombustible material at the base of the home; 4) upgrading windows and vents to prevent embers from entering any openings; 5) closing the eaves; 6) choosing noncombustible gutters and downspouts; 7) clear and maintain underdeck area and enclose low-elevation decks; 8) maintain yard clear of debris; and 9) replace combustible fencing within 5 feet of the home. The partnership with other state agencies coalesced around three pillars: collecting data, communicating with the public and continuing to work collaboratively.

Karen Collins (American Property Casualty Insurance Association—APCIA) said California has experienced multiple years of heavy losses due to wildfire. Since 2017, insured losses have totaled more than \$40 billion, the majority due to losses from wildfire in California, which had eight of the 10 costliest wildfire events worldwide during that same period. According to a study from Milliman, wildfire losses incurred in 2017 and 2018 cost the insurance industry 20 years of accumulated profit and remains unprofitable today. The risk in the market continues to grow as land-use policies allow properties to be built in the wildland urban interface, drought conditions worsen, and the heat continues to deteriorate the arid environment.

Ms. Collins said insurers are also facing legislative and regulatory pressure, which is increasing their cost to do business in the state and restricting their ability to limit or reduce exposure. She said insurers have been focused on mitigation as the only way to meaningfully reduce future losses and improve market conditions. The industry fully supports the IBHS Wildfire Prepared Home and community programs. They are advocating at the state and federal level for mitigation resources, including better building codes, mapping and modeling for early fire detection, and active communication and suppression of wildfires. Ms. Collins said ACIA's CEO, David Sampson, was recently appointed to the federal Wildland Fire Mitigation and Management Commission, which was established as a result of the federal Infrastructure Investment and Jobs Act. She said the APCIA is focused on promoting consumer risk awareness and collaboration with other stakeholders to amplify the message of mitigation and preparedness. Ms. Collins said rate adequacy is a top concern for insurers, and she requested flexibility from state insurance regulators as insurers continue to encounter challenges with catastrophic losses, a difficult reinsurance market, and increasing inflationary pressures driving up costs.

Mr. Brickwedde asked Mr. Wright about IBHS research to study parallels between wildfire and wind damage due to severe convective storm, as Minnesota is a state with risk from both perils. Mr. Wright said the physics of how wind and fire interact with structures is fundamentally the same. Both move in a circular pattern fatiguing the building as it hits the structure. The mitigation features, however, vary by peril. When wind hits a structure, it dissipates, but when fire hits a structure, it amplifies.

Mr. Brickwedde asked the APCIA how insurers can share claims data with regulatory agencies so they can build the information necessary to develop a mitigation campaign in the most cost-effective way. Dave Snyder (APCIA)

said insurers are still concerned about data privacy and protection, but through the work of the newly established Catastrophe Modeling Center of Excellence (COE) may be the best path forward to make progress in this area.

Mr. Chou asked how the research conducted by IBHS would be reflected in future building codes. Mr. Wright said following Hurricane Andrew, Florida led the way in advancing building codes, which was imperative for reducing the risk of future loss. He said California code is heading in a similar direction, and IBHS is working on studies to determine measures to be implemented into new construction to reduce the risk of wildfire.

Commissioner Kreidler asked the APCIA how the industry could collaborate with the NAIC and state insurance regulators to develop the data around disaster-related losses and opportunities for future mitigation. Mr. Snyder said the COE would be a good place to start and invited a follow-up discussion on data needs and capacity building. He said to build on that mitigation work and spread the message, the type of collaboration highlighted today is critical to develop a streamlined, consistent message and work across local communities, agencies, and organizations.

Commissioner Lara said additional components of mitigation include funding and land-use planning. He said we need to understand the risks from natural hazards and use insurance as a tool to drive people to make better, safer decisions about where and how to build.

4. Heard a Presentation Regarding Ceres' Work on Climate Risk Disclosures

Steven Rothstein (Ceres) said Ceres held a virtual presentation on July 27, hosted by the NAIC, to assist insurers required to submit a climate risk disclosure survey to the 15 participating states. This was the first of a series of webinars that will be hosted leading up to the Nov. 30 filing deadline. The next session will be held on Sept. 14 and will be a 90-minute presentation followed by 30 minutes for questions. Ceres will also have three peer support sessions for insurers to ask questions and interact with California DOI staff regarding the survey response submission process. Mr. Rothstein said the Financial Stability Board (FSB) has developed multiple resources to support the Taskforce on Climate-Related Financial Disclosure (TCFD) framework, and because the state climate risk disclosure survey aligns to the TCFD, those resources could be used by insurers filling it out this year.

Mr. Rothstein said Ceres is preparing two reports with the Wharton Risk Management and Decision Processes Center on the impact of severe climate events on low- and moderate-income families, as well as policy and product recommendations to reduce the impact. Ceres is also conducting an analysis of the 28 TCFD reports received in 2021 through the climate risk disclosure survey requirement. Ceres has contracted with a company to use artificial intelligence (AI) to pull out content from the insurer reports and begin to develop a list of common industry practices regarding climate risk management, governance, strategy, and metrics and targets. Mr. Rothstein said Ceres is working with the California DOI to analyze the investment portfolios of its licensed insurers and Ceres welcomes additional suggestions for projects of interest to state insurance departments.

5. Heard a Federal Update

Brooke Stringer (NAIC) said the U.S. House of Representatives recently passed the Wildfire Response and Drought Resiliency Act (H.R. 5118), which was introduced by Rep. Maxine Waters (D-CA). The bill requires the Federal Emergency Management Agency (FEMA) and the Government Accountability Office (GAO) to conduct studies assessing the danger that wildfires pose to communities and how the homeowners insurance market is responding to the growing threat. The report would also assess the state insurance regulatory response to wildfire loss events and subsequent market reaction. She said even if the bill does not pass the Senate and become law, Rep. Waters can request that the GAO study these issues anyway. Ms. Stringer said the Senate recently passed the Inflation

Reduction Act (H.R. 5376), which includes significant climate investment and is slated to pass the House of Representatives on Aug. 12. While the Act does not include insurance-specific provisions, it does have significant climate-related impacts, including implications for clean energy and resiliency funding.

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

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