Draft date: 11/5/24
2024 Fall National Meeting
Denver, Colorado

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE
Tuesday, November 19, 2024
12:45 – 2:00 p.m.
Gaylord Rockies Hotel—Aurora Ballroom B—Level 2

ROLL CALL

Alan McClain, Chair	Arkansas	Scott Kipper	Nevada
Michael Conway, Co-Vice Chair	Colorado	D.J. Bettencourt	New Hampshire
Michael Yaworsky, Co-Vice Chair	Florida	Alice T. Kane	New Mexico
Mark Fowler	Alabama	Andrew R. Stolfi	Oregon
Andrew N. Mais	Connecticut	Larry D. Deiter	South Dakota
Holly W. Lambert	Indiana	Tregenza A. Roach	U.S. Virgin Islands
Vicki Schmidt	Kansas	Kevin Gaffney	Vermont
Mike Chaney	Mississippi		

NAIC Support Staff: Aaron Brandenburg

AGENDA

1. Consider Adoption of its Summer National Meeting Minutes —*Commissioner Alan McClain (AR)* — Attachment One

2. Consider Adoption of its Task Force and Working Group Reports — Attachment Two
   A. Casualty Actuarial and Statistical (C) Task Force —*Commissioner D.J. Bettencourt (NH)*
   B. Surplus Lines (C) Task Force—*Director Larry D. Deiter (SD)*
   C. Title Insurance (C) Task Force—*Director Eric Dunning (NE)*
   D. Workers' Compensation (C) Task Force —*Commissioner Alan McClain (AR)*
   E. Cannabis Insurance (C) Working Group —*Commissioner Ricardo Lara (CA)*
   F. Catastrophe Insurance (C) Working Group —*Director Chlora Lindley-Myers (MO)*
   G. Terrorism Insurance Implementation (C) Working Group —*Martha Lees (NY)*
   H. Transparency and Readability of Consumer Information (C) Working Group—*George Bradner (CT)*

3. Consider Adoption of Premium Increase Transparency Guidance —*George Bradner (CT)*	Attachment Three
4. Consider Adoption of its 2025 Proposed Charges —*Commissioner Alan McClain (AR)*	Attachment Four
5. Hear a Federal Update—*Alex Swindle (NAIC)*	
6. Hear an Update on the Status of the Property/Casualty (P/C) Market Intelligence (PCMI) Data Call—*Commissioner Alan McClain (AR)*	
7. Hear a Presentation from QuantivRisk on the Intersection of Advanced Vehicle Technology and Auto Claim Adjudication —*Mike Nelson (QuantivRisk) and John Pettit (QuantivRisk)*	Attachment Five
8. Hear a Presentation from FortressFire on using Fire Science and Data to Deliver Home Resilience—*John Wall (FortressFire) and Duane Gibson (FortressFire)*	Attachment Six
9. Discuss Any Other Matters Brought Before the Committee —*Commissioner Alan McClain (AR)*	
10. Adjournment	

Draft: 8/22/24

Property and Casualty Insurance (C) Committee
Chicago, Illinois
August 15, 2024

The Property and Casualty Insurance (C) Committee met in Chicago, IL, Aug. 15, 2024. The following Committee members participated: Alan McClain, Chair, and Russ Galbraith (AR); Michael Conway, Co-Vice Chair, represented by Kate Harris (CO); Michael Yaworsky, Co-Vice Chair, and Virginia Christy (FL); Mark Fowler (AL); Andrew N. Mais and George Bradner (CT); Amy L. Beard represented by Victoria Hastings (IN); Vicki Schmidt (KS); Mike Chaney represented by Andy Case (MS); D.J. Bettencourt represented by Christian Citarella (NH); Alice T. Kane represented by Melissa Robertson (NM); Scott Kipper represented by Gennady Stolyarov (NV); Andrew R. Stolfi represented by Cassie Soucy (OR); Larry D. Deiter (SD); Tregenza A. Roach (VI); Kevin Gaffney (VT). Also participating were: Ken Allen (CA); Cynthia Amann (MO); and Michael McKenney (PA).

1. Adopted its Spring National Meeting Minutes

Commissioner Mais made a motion, seconded by Director Deiter, to adopt the Committee's March 18 minutes (*see NAIC Proceedings – Spring 2024, Property and Casualty Insurance (C) Committee*). The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

   A. Casualty Actuarial and Statistical (C) Task Force

Citarella said private flood insurance is becoming a prominent and needed coverage. While the Task Force was happy to see the Private Flood Insurance Supplement (Supplement) in the Property/Casualty (P/C) Annual Statement Blank to aid state insurance regulators in understanding the private market, insurers are not consistently reporting this information. Additionally, it is likely that the international data does not provide the same information as the Supplement in the annual statement.

Citarella said the NAIC Rate Model Review Team director, Kris DeFrain, reported to the Task Force that the team is booked nine months out. This is a much longer timeline than their goal of 30 days. Most importantly, the Rate Model Review Team cannot accept any new rate submissions for at least the next six months while they are reviewing filings that have already been submitted.

Citarella said the possibility of hiring more actuaries has been proposed to NAIC senior management for possible consideration during the budget process. Senior management would like the commissioners to consider the value of this service and whether they want to staff the team so that reviews are done in 30 days or less. Senior management would also like suggestions on how to potentially fund this program, as well as changes that can be made to make the service more cost-efficient. While the Executive (EX) Task Force will discuss this issue in the budgeting process, the Casualty Actuarial and Statistical (C) Task Force is asking the Committee to provide input into the process and communicate the needs and importance of this team to the state insurance regulators. Citarella said state department of insurance (DOI) resources are often limited. The Rate Model Review Team is helping state insurance regulators as rating models continue to increase in complexity and the frequency in which they need to be reviewed, making the Rate Model Review Team indispensable.

B. Surplus Lines (C) Task Force

Director Deiter summarized that the Task Force exposed the surplus lines service process form for a 30-day public comment period ending Sept. 13. The modifications from the original Uniform Consent to Service of Process (Form 12) primarily addressed an issue related to the location of parties for potential lawsuits. The language within the new surplus lines service process form aligns with the language of the newly adopted *Nonadmitted Insurance Model Act* (#870). The amendments to the International Insurers Department (IID) Plan of Operation were also adopted. He summarized that the Plan of Operation provides guidance and requirements for non-U.S. insurers currently on or seeking admission to the *Quarterly Listing of Alien Insurers*. The Task Force adopted its 2025 charges and the Surplus Lines (C) Working Group's 2025 charges. Director Deiter indicated that new minimum requirements were presented for exempt commercial purchasers, effective Jan. 1, 2025. Lastly, he summarized that the Task Force heard a presentation from the National Association of Public Insurance Adjusters (NAPIA) regarding concerns with anti-public adjuster endorsements within certain policies.

C. Title Insurance (C) Task Force

Commissioner Gaffney said the Task Force met Aug. 14. The Task Force anticipates adopting the updated *Survey of State Insurance Laws Regarding Title Data and Title Matters* at the Fall National Meeting.

Looking into fraud trends, industry is experiencing increased wire fraud from advances in artificial intelligence (AI) combined with a fast-paced real estate market and the prevalence of consumers communicating and transacting via mobile phones. Fraudsters are using AI to draft nearly pitch-perfect emails or voicemails to approach the buyer.

Additionally, there have been several title-related federal activities since President Biden said his administration would eliminate title insurance fees for federally backed mortgages during his State of the Union Address in March. Following this, the U.S. House of Representatives (House) Financial Services Subcommittee held a hearing that included discussion about the Federal Housing Finance Agency's (FHFA's) pilot program to waive traditional title insurance, effectively allowing Federal National Mortgage Association (Fannie Mae) to self-insure.

In May, the Federal Home Loan Mortgage Corporation (Freddie Mac) began allowing attorney opinion letters (AOLs) to replace title insurance in most states. Following this, the bipartisan bill, Protecting America's Property Rights Act (H.R. 5837), was introduced into the House. This bill requires title insurance on all loans purchased by Freddie Mac and Fannie Mae.

In June, NAIC staff responded to Rep. Emmanuel Cleaver (D-MO), addressing his concerns about title insurance, AOLs, and consumer protection. The letter emphasized the Task Force's efforts to analyze the benefits and risks of alternatives to title insurance and its commitment to educating consumers.

On June 13, Rohit Chopra (Consumer Financial Protection Bureau—CFPB) testified before the House Committee on Financial Services about the CFPB's role in regulating title insurance and the importance of disclosures in the Real Estate Settlement Procedures Act (RESPA). Rep. Blaine Luetkemeyer (R-MO) argued that insurance is regulated at the state level and that title insurance is outside their authority. Chopra emphasized that the CFPB does have authority over disclosure practices related to mortgage insurance but respects the state model for the business of insurance.

On July 10, following White House directives to reduce housing costs, the Federal Insurance Office (FIO) held a title insurance roundtable. Commissioner Chlora Lindley-Myers (MO) and Commissioner Doug Ommen (IA) participated. The overarching themes were the demands for more competition, transparency, and consumer protection in the title insurance sector. The FIO is not contemplating further action at this time.

Commissioner Roach asked if replacing title insurance is to save buyers' fees and if AOLs are without cost. Commissioner Gaffney responded that if the title insurance cost is eliminated, there is still a cost associated with AOLs. AOLs are often backed by surplus lines market products. The Task Force has requested but has been unable to obtain documents on how AOLs address consumer protection. Commissioner Roach said the title-related federal activities should be assessed against traditional title insurance. However, he acknowledged they do not have the jurisdiction to require the information.

D. Workers' Compensation (C) Task Force

Commissioner McClain said the Task Force met Aug. 8 and heard an update on the state of the workers' compensation market from the National Council on Compensation Insurance (NCCI). The workers' compensation industry is quite strong; the combined ratios have been under 90% for the past seven years. Commissioner McClain said the Task Force will be meeting in person at the Fall National Meeting.

E. Cannabis Insurance (C) Working Group

Allen said the Working Group met May 8. There continues to be a lot of activity regarding cannabis issues in U.S. Congress (Congress). Most financial services sectors continue to be reluctant to do business with cannabis-related businesses due to marijuana's federal classification as a Schedule I controlled substance under the Controlled Substances Act (CSA). The Secure and Fair Enforcement Regulation (SAFER) Banking Act of 2023 has had the most momentum in addressing these issues. The bill passed the Senate Banking Committee with bipartisan support but faces challenges in reaching a consensus with all members.

Additionally, in May 2024, the U.S. Department of Justice (DOJ) formally moved to reclassify marijuana as a Schedule III substance alongside drugs like ketamine by sending a proposed rule to the Federal Register. The Drug Enforcement Administration (DEA) took comments on the proposal through July 22. It received over 40,000 comments. The process for a potential approval is anticipated to be lengthy.

In looking at the cannabis market, expansion has been driven by newer markets, mainly in the Northeast and Midwest. Growth and prices have declined substantially in mature markets, mainly in the West and Northeast. Sophisticated products sold by multistate brands account for the majority of sales. Medical-use cannabis is anticipated to continue declining as more states allow for recreational use.

Regarding insurance availability, directors and officers (D&O) and cyber coverage are becoming more affordable with better coverage. Reinsurance capacity has increased. Key person coverage, product contamination, and cannabis-focused specialty solution programs with language specific to cannabis are also becoming available. Admitted general liability and product liability coverages are available in 10–15 states. Outdoor crop coverage remains unavailable outside of parametric coverage. However, parametric coverage is now available in more states. Auto insurance is still problematic and expensive. Property coverage is limited and commonly self-insured. Life insurance remains difficult to find.

F. Catastrophe Insurance (C) Working Group

Amann said the Working Group and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group met in joint session Aug. 13. FEMA presented updates to its Community Rating System (CRS) and will provide a more detailed webinar Aug. 22. FEMA also provided information on its new direct-to-consumer (D2C) product.

Amann said Brian Powell (CIPR) provided an update on the Center of Excellence's (COE) resilience hub. The Working Group will begin meeting monthly with the COE and Climate and Resiliency (EX) Task Force to ensure group collaboration and prevent project repetition or overlap. Dave Snyder (American Property Casualty Insurance

Association— APCIA) presented information about why insurance prices have increased, how policyholders might lower their premium cost, and discussed mitigation discounts. There was also discussion about how risk mitigation plans are important not only for the individual but for the whole community.

Amann said the Working Group is nearing completion on the Catastrophe Insurance Modeling Primer (Primer). The purpose of the Primer is to offer a document providing the fundamental concepts surrounding probabilistic catastrophe models and to serve as a bridge to available training from the COE.

In terms of the next steps, the Primer is currently being reviewed by experts at the COE and others. Once feedback is received, the drafting group plans to reconvene at the beginning of September with the goal of exposing the Primer to the Working Group, interested state insurance regulators, and interested parties before year-end 2024. The Working Group anticipates adopting the Primer on or before the Fall National Meeting.

G. Terrorism Insurance Implementation (C) Working Group

The Working Group had nothing to report as it has not met since the Spring National Meeting.

H. Transparency and Readability of Consumer Information (C) Working Group

Bradner said the Working Group is working on a guidance document for states wishing to implement a disclosure notice process for insurers to explain to policyholders why their premium for either personal auto or homeowners policy increased.

The guidance uses a bifurcated approach to allow insurers time to implement the needed processes. In Phase One, insurers need to notify policyholders of their right to request an explanation for their rate increase. Instructions on how this should be done are included in the guidance. Once a policyholder provides a written request for an increase at the policy's renewal, insurers must provide reasonable explanations for premium increases. This is in line with current industry practices.

Bradner said the guidance recommends Phase Two begin three years after Phase One. In Phase Two, notice is triggered when the renewal premium increases by 10% or more or upon the policyholder's written request for any increase. Insurers must send the disclosure notice at least 30 days before the renewal date. Notices must have reasonable explanations and include the primary factors, which are defined in the guidance, of the premium increase. A suggested template for auto and homeowners disclosure notices is also included in the guidance.

For both phases, insurers must respond to a policyholder's written request for explanation no later than 30 days for the first request and 20 days for subsequent requests. To address industry concerns, the guidance clarifies that insurers should make every effort to respond prior to the renewal date, but the premium due date will not be altered.

The Working Group made substantial revisions to the guidance document based on comment letters it received during its previous exposure period in February. The most substantial change was combining the capping and non-capping guidance documents into one guidance document that applies to both. Additional revisions focused on improved clarity and readability. During the Working Group's virtual meeting Aug. 8, it exposed the revised guidance document with comments due Aug. 30. The Working Group's intent is for the guidance document to be adopted before the Fall National meeting.

Stolyarov said Nevada is in the early stages of working on a regulation for the disclosure of rate increases, particularly for homeowners policies. He asked if the guidance written by this Working Group could be adapted to the text of a regulation or referenced in some way. Stolyarov said Nevada has written the preliminary text of the proposed regulation. He asked if there could be some coordination between Nevada's approach and the NAIC guidance. Bradner responded that this is possible. He also noted that Indiana and Washington have provided guidance to the industry about reporting, which could provide additional guidance for Nevada.

Commissioner Schmidt made a motion, seconded by Commissioner Gaffney, to adopt the following reports of the following task forces and working groups: Casualty Actuarial and Statistical (C) Task Force; Surplus Lines (C) Task Force; Title Insurance (C) Task Force; Workers' Compensation (C) Task Force; Cannabis Insurance (C) Working Group (Attachment One); Catastrophe Insurance (C) Working Group; and Transparency and Readability of Consumer Information (C) Working Group (Attachment Two). The motion passed unanimously.

3. <u>Heard a Federal Update</u>

Shana Oppenheim (NAIC) said the federal government, Congress, White House, and federal agencies continue to be active in several areas that impact the P/C market, including natural disasters and housing affordability, cannabis banking, title insurance, and marine insurance of illicit oil shipments.

On the legislative side of the natural disaster and housing affordability front, several bills are providing funding, tax incentives, and research for state mitigation and resilience programs to address property insurance market challenges arising from natural disasters that have been introduced in both the House and Senate. Oppenheim said that given the August recess Congress is currently in and the limited calendar year before the election, as well as the fact that it is an election year, she does not expect any of those to pass this Congress. Congress has also held several hearings in the past few months on housing affordability and the insurance component of housing and title insurance. Additionally, the FHFA's pilot program allows Fannie Mae to self-insure the title insurance on mortgages to reduce costs. Overall, there is an increased interest in housing affordability and, specifically, how to reduce costs, including targeting insurance and title insurance.

The FHFA initiated a stakeholder engagement process to address concerns over property insurance requirements following recent clarifications. It aims to gather feedback from the mortgage, insurance, and community association sectors, focusing initially on compliance challenges related to a property's replacement cost valuation and claims settlement practices.

Switching to another issue of interest to the P/C market, there continues to be a push for cannabis financial services legalization. Senate Majority Leader Chuck Schumer (D-NY) has indicated that he does plan to bring the SAFER Banking Act to the Senate floor soon. It is uncertain as to whether the Act will pass. The rescheduling of cannabis from a Schedule I to a Schedule III drug, which is being contemplated by the DOJ, could lead to significant tax breaks and increase access to capital for cannabis markets. The rescheduling does not affect the need for the SAFER Banking Act because there is still going to be a need for insurance and banking access within the cannabis industry.

Oppenheim said the Stopping Illicit Oil Shipments Act of 2023 (H.R. 6365) was introduced by Rep. Maxine Waters (D-CA). The Act would require the Office of Terrorism and Financial Intelligence within the U.S. Department of the Treasury (Treasury Department) to issue rules about unverified ship registrants in insurance contracts. This would require the Treasury Department to report to Congress.

Commissioner Roach asked if there is any support from the DOJ to move cannabis from a Schedule I drug to a Schedule III drug. Oppenheim said it will be going through the public exposure process, and she speculates it will likely happen. She said that Congress does not really have anything to do with it; however, there might be some interplay between the overruling of the Chevron deference and whether challenges can be brought under the authorizing statutes that allow the governing agencies to make that move. There has not been much conversation in Congress about this topic.

4. Heard an Update on the PCMI Data Call

Commissioner McClain said the Property & Casualty Market Intelligence (PCMI) Data Call was issued March 8. Data was due June 6, although some extensions were given. Filings have been received from most of the insurance companies.

Commissioner McClain said that NAIC staff have been reviewing files and have followed up with many companies about data anomalies. In some cases, insurers needed to refile. This process continues to ensure there is a good data set to analyze. The state insurance regulator steering committee meets regularly to provide input on the analysis of the data. State insurance regulators started with a series of questions last fall related to affordability and availability, changing trends and coverages, and deductibles, among other things. States will have access to the raw data to conduct their own analysis. The NAIC also plans to issue a summary analysis later this year.

5. Heard a Presentation on Homeowners Insurance Markets

Robert Gordon (APCIA) said it is well known that property insurance markets are deteriorating, and the industry's profitability is down. He said homeowners and private passenger auto (PPA) lines have seen high losses. These lines have had low to negative returns on net worth, well below other sectors, as reported in the *Report on Profitability by Line by State* (Profitability Report).

Gordon said homeowner losses are being driven by a rise in exposure values and replacement costs; the natural variability that comes with any five-year sample of catastrophe experience; effects of climate change; and impacts of man-made loss drivers, such as social inflation and legal and regulatory factors. He noted that inflation and rebuilding costs are up. He explained that when looking at U.S. insured losses from 2008–2023, general inflation and economic growth/urbanization were the largest drivers, followed by societal and behavioral trends, inflation costs for repair, material, and climate change. He also noted that the costs of legal system abuse are increasing.

Gordon noted that housing affordability is at low levels, and insurance accounts for about 6.5% of homeownership compared to 64% for mortgage, 14% for utilities, 11% for property taxes, and 4% for maintenance. He said homeowner insurers are dealing with these stresses through product design by sometimes using actual cash value (ACV), changing deductibles, and limiting individual perils.

As for solutions, Gordon said state insurance regulators should not suppress rates, as that contracts capital and encourages overbuilding. He said reinsurers have ample disaster capital on the sidelines, and government-subsidized backstops displace private markets and mask socially beneficial climate risk signals. He said insurers are leading efforts to make communities more resilient and to mitigate risks. They are working with federal and state policymakers, supporting resiliency and mitigation programs, and advocating for stronger building codes and land use policies. Companies are also advocating for financial support to increase resilience for vulnerable populations and investing in climate and renewable technologies. He said the changes to building codes led to significant cost savings following Hurricane Ian compared to what the storm would have caused in the 1970s.

Commissioner Yaworsky said it seems leaders in the industry experience a challenge in separating out, for example, the growing population that is up against climate-impacted or severe weather-impacted areas and muddling those losses together to frame a picture today that climate change is the main driver of these impacts. As shown in this presentation, the areas where climate change is the main driver in those impacts, the entire bundle of challenges that are raising the cost of insurance or putting pressure on the industry in this totality places it at about a 1% impact point.

Commissioner Yaworsky said the challenge for both industry and state insurance regulators is to convey climate change as accurately as possible when talking about the actual wet global weather and weather patterns that emerge over time so that it is possible to truly tackle the issues, which can include things like the fact that we have a growing population center that is brushing up against more extreme areas with more extreme weather.

Stolyarov said he represents Nevada, with minimal catastrophic loss experience; however, recently, Nevada has had real wildfire loss potential. He said the answer proposed in the presentation of essential rate increases as adequately addressing the risk of catastrophe loss potential might not actually be the answer. Stolyarov said the increase in capacity on the part of the insurer level might be the answer because of how insurance pricing works. He said the premium could have a catastrophe load built into the base rate to account for the expected value of the risk of catastrophe loss. He said there might be a little margin for conservatism, but in a good year, if no catastrophe happens, the portion of the premium dedicated to the catastrophe load does not get stored away in some catastrophe loss fund for future years; it gets paid as dividends perhaps, or it might get used for sheer repurchases or other current expenditures.

Stolyarov said that 10 or 50 years later, when a catastrophe occurs, there is no prior premium to pay for the losses. He said if a rate increase is based on catastrophe losses and the state insurance regulator approves the rate filing, then the money is likely never going to be used to pay for catastrophe losses. Stolyarov asked if there would not be a better solution where insurers could set up dedicated catastrophe loss funds where these assets are locked away and used only for paying for a catastrophe, whether that be this year, five years, or 10 years down the line. This way, states may not have to be faced with rate increase requests every time a major catastrophe happens, or a model predicts that it might happen.

Gordon said that, as an industry, they have supported some of that so that consumers can build up some tax-free catastrophic accounts. Generally, though, when investors look at markets and decide how to allocate capital, whether it is insurers, reinsurance, or alternative capital, they do look at the long-term profitability of the market so it is not just what happened in the last year, but what happened over a long period of time and what the models say is going to happen in the future to decide.

Commissioner Roach said he lives in an area of the Virgin Islands where there is already restricted and shrinking coverage for P/C exposures, but these areas are still prone to the impacts of climate change. He asked whether the APCIA sees more coverage declining or increasing costs of coverage. Commissioner Roach also asked what some of the objective considerations were being made to make the determination to deny coverage due to climate change. He asked what some of the objective considerations being made are when there's a denial of climate change coverage.

Gordon said the APCIA brought together a group of chief executive officers (CEOs) in a catastrophic risk insurability working group to try to understand catastrophic cyber, terrorism, pandemic, wildfire, and windstorm risks, among others. The CEOs concluded that the weather would be very insurable if the government allowed the private marketplace to work. They felt confident that they could bring enough capital to the market, even with the increasing costs being caused by climate change, if they were allowed to charge the right rate.

Gordon said the problem is there is always this tension because of the affordability aspect; just because insurers can bring in more capital at the right rate to provide coverage does not mean it is going to address the concern about how homeownership is getting more and more out of reach for consumers. Gordon said the question is how you make that coverage affordable for as many people as you can. That gets back to mitigation, resiliency, and the ability to offer more coverage options that can help consumers. It is hard for states to fix inflation or the weather, but hopefully, things like the cost of the legal system and regulatory costs can find the right balance to get an efficient system.

Commissioner Roach said he is preparing himself as an insurance regulator for when consumers can get coverage, and climate change is the undue response. Gordon said he believes it is an affordability issue and that climate change over time is going to make coverage less and less affordable, which is a concern to the APCIA. He said, however, that some perils, like wildfire, are impacted by climate change more than others. Gordon believes that it is important to recognize this in public policy discussions.

McKenney said that he noticed the presentation discussed underwriting results but not investment returns. He said he believes investment returns have been high and asked about their impact. Gordon said that the easiest way to look at the impact of investment returns is to look at the industry surplus; it took a $72 billion hit in 2022, and the global reinsurance industry took a 12% hit on its capital. He said that the surplus is currently at about the same nominal level that it was two years ago, but in real terms, it is less, and compared to the demands, it is a lot less. Gordon said there have been some investment returns, but not every insurer has been putting all their money into profitable investments. Gordon said insurers cannot always depend on market returns, and the thing to look at is the real surplus and the capital available compared to the growth in the economy and the insurance demand. He said that right now, the surplus is still declining in real terms and has not caught up to demand.

McKenney said the presentation indicated that coverage is being moved toward ACV and higher deductibles to help deal with some of the cost issues. He said that Fannie Mae has recently put out a bulletin indicating that it does not accept ACV and that deductibles cannot be higher than a certain amount. McKenney said he has talked with another low-income mortgage loan servicer that has similar deductible requirements. He asked how state insurance regulators should view the strategy of moving toward less coverage that perhaps some mortgage lenders are not accepting. McKenney said the last thing state insurance regulators want is for insurers to write business for a policyholder and then move them to a high deductible or ACV, only to have their mortgage lender force place the insurance.

Gordon said the APCIA has been talking extensively about the ACV issue, not only with Fannie Mae and Freddie Mac but with the FHFA trying to get the rule to recognize and allow how the market works. He said this issue is reminiscent of a similar problem that occurred following some of the Florida hurricanes a couple of decades ago. Gordon said that insurers had to create a separate wind deductible to make insurance affordable. He said Fannie Mae and Freddie Mac did not want to recognize this, and there was a fight with Congress, those mortgage lenders, the state insurance regulators, and the insurance markets before all parties found a workable solution. Gordon said the APCIA is holding constructive, good-faith dialogues to work out this issue. Gordon said it is clear that roof replacements have become the primary cost of non-catastrophic homeowners' losses from hail, thunderstorms, etc. He said there has also been an enormous amount of roofing fraud. Gordon said that this issue must be worked out. He believes the APCIA will arrive at a solution with the FHFA.

Cate Paolino (National Association of Mutual Insurance Companies—NAMIC) gave a presentation and said several pressures are converging to create a new era of risk for the P/C industry, including extreme weather, inflation, and the legal system. She explained that severe convective storm losses have increased by nearly 9% annually since 1990. She said the solution should be bending the loss curve down using hazard and migration measures, including building codes and Insurance Institute for Business and Home Safety (IBHS) building standards. She also noted that people have been moving to coastal areas over the past 50 years.

Paolino noted that unintended consequences should be avoided, such as recent activities by FHFA that consider allowing replacement cost policies. She also noted a rise in nuclear legal verdicts and third-party litigation funding. Paolino said reforms such as the ones Florida took to improve the legal landscape have improved, as at least 19 Florida insurers have filed for rate decreases or no increases in 2024.

Paolino said solutions include a multi-pronged approach to bend the curve through a package of mitigation and resiliency steps, from grants to savings accounts, from building codes to land use, and from collaborating with other agencies; retaining discipline with respect to fundamentals like risk-based pricing, consumer choice, and market-based competition; and putting guardrails around litigation and taking steps to combat legal system abuse.

Amy Bach (United Policyholders—UP) asked for time to provide perspectives on the presentation at the next meeting. She asked if the Committee has looked at ways of reducing non-essential coverages, such as contents and other structures, as an alternative so that it is still delivering products that provide indemnification to restore mortgage collateral, which, at the end of the day, is why those letters require that level of coverage.

Paolino responded that the question and concern NAMIC has is where the requirement for coverage is above and beyond the amount of the loan. Stepping back to Bach's question about other possibilities, Paolino said she believes that having diversity in the marketplace on a whole range of issues is a positive, and though NAMIC cannot necessarily have conversations with members about what they do in the marketplace, they can convey state insurance regulators' questions in her report.

Ken Klein (Consumer Advocate) said he is interested in why Paolino equates a large verdict with a wrong verdict. He asked if the worst actors are being emboldened and policyholders are being harmed by reforms addressing nuclear verdicts, assuming the system is working correctly. Paolino said there were more items she could have referred to but did not. She said the piece by the Institute for Legal Reform (ILR) points to not only the size of the verdict but also to some of the processes around the process of how litigation unfolds to increase the award. Paolino believes there are several different components beyond nuclear verdicts that would make for an interesting conversation.

Gordon said the U.S. is an enormous outlier across the globe in terms of the amount of money that gets sucked out of the legal system and goes to lawyers instead of policyholders or injured victims. He said the APCIA's members want a fair and cost-effective legal system. Gordon said the APCIA is always looking for ways to improve the efficiency of the legal system. He said that the APCIA also recognizes the increasing legal costs while seeing homeownership becoming less and less available to consumers. He said that the property reinsurance market has been stabilizing, but the casualty reinsurance market is hardening again. Gordon said the reserve development from increasing legal costs is becoming worse, which is an emerging problem.

Commissioner Yaworsky said he appreciated the recognition of the number of insurers that have either filed annual filings of zero or a reduction. He noted that this past week, he got an update that there are now 43 companies in the state of Florida that have filed for reduction since its tort reform was enacted. Commissioner Yaworsky said the reforms Florida put into place are biting hard into that space when waste for abuse in the legal environment is discussed, and Florida is seeing positive impacts. He said he believed the goal was to bring Florida back to a rational system. Commissioner Yaworsky said Florida had a law that incentivized anyone, in any situation, to litigate regardless of the merits of their claim, and this precipitated enormous costs.

Commissioner Yaworsky said that, as an example, he believed that in 2022, the pure raw cost to the insurance industry, which was receiving $20 billion in direct written premiums, spent about $2.5 billion defending litigation. He said this was ultimately passed on to the policyholder. He said just by restoring rationality and Florida rejoining 48 other states on a contingency fee-based system, there seem to be dramatic impacts on the cost of insurance in Florida. Commissioner Yaworsky said Florida's system and the reinsurance market were stabilizing, and the reinsurance market, with the average rate of the cost of reinsurance risk-adjusted for the first time in seven or eight years, has gone down. He said Florida is excited to see a stable return for its consumers and would be happy to speak to anyone about the merits.

Having no further business, the Property and Casualty Insurance (C) Committee adjourned.

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Task Force and Working Group Summaries Will Be Added When Available

Virtual Meeting
(in lieu of meeting at the 2024 Fall National Meeting)

SURPLUS LINES (C) TASK FORCE
Thursday, November 7, 2024
12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10 a.m. PT

Meeting Summary Report

The Surplus Lines (C) Task Force met Nov. 7, 2024. During this meeting, the Task Force:

1. Adopted its Summer National Meeting minutes.

2. Adopted the report of the Surplus Lines (C) Working Group, which met Sept. 24 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. During this meeting, the Working Group approved one insurer for admittance to the Oct. 1 edition of the NAIC *Quarterly Listing of Alien Insurers*.

3. Discussed comments on the draft surplus lines service of process form that was exposed for a 30-day public comment period that ended Sept. 13. Following discussion, the Task Force chair directed the drafting group to consider additional comments on the draft and report back at the next national meeting.

4. Heard a summary of 2023 surplus lines industry financial results. The industry report was posted to the Surplus Lines (C) Working Group web page.

PREMIUM INCREASE TRANSPARENCY DISCLOSURE NOTICE GUIDANCE FOR STATES

For renewal premium that results or does not result from a capping procedure used by the insurer

Scope of Applicability

(1) Disclosure applies to policies renewed on or after [Enter Date].
(2) Disclosure applies to authorized insurers with these types of personal insurance policies:
   a. Private passenger automobile coverage;
   b. Homeowners coverage, including mobile homeowners, manufactured homeowners, condominium owners, and renter's coverage; and
   c. Dwelling property coverage for owner occupied dwellings only
(3) Disclosure applies to renewals of policies and will not apply to the purchase of new policies or new insurance applications.
(4) Exemptions
   a. Disclosure does not apply to personal insurance policies for coverage of boats, motorcycles, off-road vehicles, recreational vehicles, antique or collector vehicles, classic vehicles, and specialty vehicles.
   b. This chapter does not apply to policyholder-initiated changes to insurance coverages, policies, or premiums such as policyholder-initiated changes to deductible, frequency of payments, or increase/decrease in what is covered.
   c. This chapter does not apply to personal umbrella policies.
   d. This chapter does not apply to notices required by the Federal Fair Credit Reporting Act (15 U.S.C. 1681 et. seq.).
   e. Where a usage based or telematics program is being used, if a company has a process for routinely disclosing information to drivers on how their performance is impacting their rate, an additional disclosure is not required. Otherwise, a state should consider having these programs included in this disclosure, while keeping within state confidentiality laws.
   f. For Phase Two, this chapter does not apply to insurance policies with a premium increase of less than $100 annually.

Notification Thresholds

(1) Phase One: Beginning [enter date], and effective until [enter date Phase One ends*], insurers must reasonably explain changes in premium for policies described in the Scope of Availability, upon written request by the policyholder, for any premium increase at renewal.

(2) Phase Two: Beginning [enter date Phase Two begins], insurers must automatically provide premium change notices, with reasonable explanations and primary factors, disclosing the causes of premium increases for insurance policies for any premium increase of 10 percent or more, or upon written request by the policyholder for any premium increase at renewal.

Automatic premium change notice applies to insurance policies with annual premium increases of $100 or more.

[* The second phase implementation date should be decided by states based on a review of Phase One and implementation of Phase Two considerations.]

Administrative and Notification Requirements

(1) For the first phase, insurers should notify policyholders of their right to request an explanation for their rate increase in accordance with their jurisdiction's requirements. For example, a state may want to provide guidance that a prominent disclaimer be at the beginning of the first page (for printed notices), or first screen (for electronic notices) and at or near the top of renewal billing statements indicating policyholders receiving an increase to their premiums at renewal can request an explanation by contacting the insurer in writing.

(2) For the second phase, insurers must automatically send the disclosure notice at least 30 days prior to the renewal date if the policyholder receives at least a 10 percent premium increase at renewal. Disclosure notification may be included with the renewal notice or may be sent in a separate mailing, or by email (if the policyholder has elected to receive email notifications). Guidance for prominent disclosure remains the same as in Phase One.

(3) For both phases:
   a. Insurers should include a statement in notifications and/or explanations that the policyholder may contact their insurer to request additional information about premium increases.
   b. Insurers should respond to a policyholder's written request for explanation of premium change no later than 30 calendar days from receipt of the written request.
   c. Subsequent requests from a policyholder for additional information should be responded to no later than 20 calendar days. Insurers should make every effort to respond prior to the renewal date. However, there is no expectation that the premium due date will be altered.

(4) Receipt and response dates may be indicated by either postmark or electronic timestamp, in accordance with each jurisdiction's requirements.

(5) Insurers should include their contact information in all premium change notifications and explanations to policyholders and may include the producer's (if any) contact information.

(6) Insurers should provide premium change notifications and explanations to policyholders in writing. Explanations or notices may be sent by mail or electronically.

<u>Communication Standards</u>

(1) Insurers should provide sufficient information, including primary factors, in terms understandable to an average policyholder. Primary factors include:
   a. Auto-related factors: change in car garaging location, driving record, miles driven, number of drivers, and number of vehicles,
   b. Property related factors: change in age, location, and value,
   c. Demographic factors: change in age, credit history, education, gender, marital status, and occupation,
   d. Other factors: change in claims history, discounts, fees and surcharges, premium capping, automatic inflationary increases, and updates to an insurer's rate plan.
   e. In addition to primary factors, insurers may disclose additional factors that are applicable to the premium increase.

(2) For the second phase, insurers must include the primary factors in the premium change notice processed for renewals, if applicable to the premium increase.

(3) If insurers include composite rating variables in their premium change explanation, the premium increase attributed to the composite rating variables should be explained.

(4) If insurers use estimated dollars, a reasonable explanation should be provided about the degree of accuracy the estimated dollars achieve.

(5) Insurers may include premium change explanations for all premium increases beyond those required.

(6) If an insurer already has a premium increase notification process acceptable to the State's regulator, the regulator may allow the insurer to continue to use the process that is in place.

<u>Phase Two: Auto Insurance Policy Premium Increase Notice Example</u>

Notice of Auto Premium Increase

Your current auto insurance policy premium is [$1,175].

Each insurer files a rating plan with the state insurance department. According to the rating plan we filed with your state, your estimated renewal policy premium is [$2,121] .

[If the policy premium is capped, a statement such as the following must be included:]

However, the next time you renew your policy your premium <u>increase</u> will be limited to $88, resulting in a renewal premium of $1,257.

Your policy premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121.

Remember there also are other rate factors that could cause your auto insurance premium to change in the future. For example, if you change your coverage, or if your personal and/or driving characteristics change, (such as your age* or any accidents or violations in the household), your policy premium could increase or decrease from the premium amounts stated above. [States that use drivers experience instead of age should substitute accordingly.]

Here are the major factors for this increase in your policy premium, along with the dollar impact of each of those reasons:

<u>Factors for your policy premium increase and the dollar impact</u>*

- **<u>Factor</u> 1 raised your premium $A**
- **<u>Factor</u> 2 raised your premium $B**
- **<u>Factor</u> 3 raised your premium $C**
- **<u>Factor</u> 4 raised your premium $D**
- **<u>Factor</u> 5 raised your premium $E**

[* States may choose to exclude the requirement for insurers to specify each factor's dollar impact for the increase in premium. In these instances, insurers should include a statement informing policyholders they can contact a designated representative for details about the specific dollar impacts, along with the necessary contact information.]

Please call your agent or our Customer Service Representative at (xxx) xxx-xxxx with any questions.

<u>Phase Two: Homeowners Insurance Policy Premium Increase Notice Example</u>

Notice of Homeowners Premium Increase

Your current homeowners insurance policy premium is [$1,175].

Each insurer files a rating plan with the state insurance department. According to the rating plan we filed with your state, your estimated renewal policy premium is [$2,121].

[If the policy premium is capped, a statement such as the following must be included:]

However, the next time you renew your policy your premium increase will be limited to $88, resulting in a renewal premium of $1,257.

Your policy premium **will continue to increase with each of the next [how many] renewals** until it reaches $2,121.

Remember there also are other rate factors that could cause your homeowners insurance premium to change in the future. For example, if you change your coverage, or if your personal and/or property risk characteristics change, (such as claims filed, age of the home and/or roof, the coverage A value, etc.) your policy premium could increase or decrease from the premium amounts stated above. [States may want to modify language to reflect their specific exposures, such as wildfires or other catastrophe exposures.]

Here are the major factors for this increase in your policy premium, along with the dollar impact of each of those reasons:

Factors for your policy premium increase and the dollar impact*

- **Factor 1 raised your premium $A**
- **Factor 2 raised your premium $B**
- **Factor 3 raised your premium $C**
- **Factor 4 raised your premium $D**
- **Factor 5 raised your premium $E**

[* States may choose to exclude the requirement for insurers to specify each factor's dollar impact for the increase in premium. In these instances, insurers should include a statement informing policyholders they can contact a designated representative for details about the specific dollar impacts, along with the necessary contact information.]

Please call your agent or our Customer Service Representative at (xxx) xxx-xxxx with any questions.

Draft: 11/4/24
Adopted by the Executive (EX) Committee and Plenary, xxx 2024
Adopted by the Property and Casualty Insurance (C) Committee, xxx, 2024

2025 Proposed Charges

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

The mission of the Property and Casualty Insurance (C) Committee is to: 1) monitor and respond to problems associated with the products, delivery, and cost in the property/casualty (P/C) insurance market and the surplus lines market as they operate with respect to individual persons and businesses; 2) monitor and respond to problems associated with financial reporting matters for P/C insurers that are of interest to regulatory actuaries and analysts; and 3) monitor and respond to problems associated with the financial aspects of the surplus lines market.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Property and Casualty Insurance (C) Committee** will:
    A. Discuss issues arising and make recommendations with respect to advisory organization and insurer filings for personal and commercial lines, as needed. Report yearly.
    B. Monitor the activities of the Casualty Actuarial and Statistical (C) Task Force.
    C. Monitor the activities of the Surplus Lines (C) Task Force.
    D. Monitor the activities of the Title Insurance (C) Task Force.
    E. Monitor the activities of the Workers' Compensation (C) Task Force.
    F. Provide an impartial forum for considering appeals of adverse decisions involving alien insurers delisted or rejected for listing to the *Quarterly Listing of Alien Insurers*. Appeal procedures are described in the International Insurers Department (IID) Plan of Operation.
    G. Monitor and review developments in case law related to risk retention groups (RRGs). If warranted, make appropriate recommendations to the Risk Retention Group (E) Task Force for changes to the *Risk Retention and Purchasing Group Handbook.*
    H. Monitor the activities of the Federal Crop Insurance Corporation (FCIC) that affect state insurance regulators:
        i. Serve as a forum for discussing issues related to the interaction of federal crop insurance programs with state insurance regulations.
        ii. Review law changes and court decisions, and, if warranted, make appropriate changes to the *Federal Crop Insurance Program Handbook: A Guide for Insurance Regulators.*
        iii. Monitor the regulatory information exchanges between the FCIC and state insurance regulators, as well as the FCIC and the NAIC, and make recommendations for improvements or revisions, as needed.
    I. Monitor regulatory issues that arise with the development of autonomous vehicles. Study and, if necessary, develop recommendations for changes needed to the state-based insurance regulatory framework.
    J. Provide a forum for discussing issues related to parametric insurance, and consider the development of a white paper or regulatory guidance.
    K. Study and report on the availability and affordability of liability and property coverage for nonprofit organizations.
    L. Assist state insurance regulators in better assessing their markets and insurer underwriting practices by developing property market data intelligence so regulators can better understand how markets are performing in their states, and identify potential new coverage gaps, including changes in deductibles and coverage types, and affordability and availability issues. Provide analysis of property insurance markets to states.

M. Provide a forum for discussing issues related to the use of telematics in insurance, and consider the development of a white paper or regulatory guidance.

2. The **Cannabis Insurance (C) Working Group** will:
   A. Assess and periodically report on the status of federal legislation and regulation involving cannabis, especially as it pertains to protecting financial institutions from liability associated with providing services to cannabis businesses operating legally under state law.
   B. Support insurance regulators' efforts to encourage the development of admitted market insurers, as well as the expansion of existing admitted market insurers and reinsurers supporting the market, to ensure coverage adequacy in states where cannabis, including hemp, is legal.
   C. Stay abreast of new products and innovative ideas that may shape insurance in this space. Provide insurance resources to insurance regulators and stakeholders, as needed.
   D. Explore potential sources of constraint to coverage limits and availability of cannabis insurance products within the admitted and non-admitted market. Explore the effect of the use of cannabis and related products on P/C insurance lines of business.

3. The **Catastrophe Insurance (C) Working Group** will:
   A. Monitor and recommend measures to improve the availability and affordability of insurance and reinsurance related to catastrophe perils for personal and commercial lines.
   B. Evaluate potential state, regional, and national programs to increase capacity for insurance and reinsurance related to catastrophe perils, including mitigation efforts being used in states and investigating loss trends in homeowners markets, with the goal of providing rate stability in the marketplace and protecting consumers.
   C. Monitor and assess proposals that address disaster insurance issues at the federal and state levels. Assess concentration-of-risk issues and whether a regulatory solution is needed.
   D. Provide a forum for discussing issues and recommending solutions on insuring catastrophe risk, including terrorism, war, and natural disasters.
   E. Investigate and recommend ways the NAIC can assist states in responding to disasters by continuing to build the NAIC's Catastrophe Resource Center for state insurance regulators to better prepare for disasters.
   F. Continue to monitor the growth of the private flood insurance market and assess the actions taken by individual states to facilitate growth. Update and discuss the Considerations for Private Flood Insurance appendix to include new ways states are growing the private flood insurance market.
   G. Collaborate with other task forces and working groups to discuss comparable topics, monitor catastrophe-related data calls, and keep informed about projects addressing the special needs of catastrophe data.
   H. Study earthquakes, severe convective storms, and wildfire matters of concern to state insurance regulators in coordination with other NAIC task forces and working groups.
   I. Work with the Catastrophe Modeling Center of Excellence (COE) to stay informed about what states are doing regarding mitigation.

4. The **NAIC/Federal Emergency Management Agency (FEMA) (C) Working Group** will:
   A. Establish a process for the oversight, prioritization, and reporting of disaster-related regional workshops and other exercises to improve disaster preparation and resilience and assist state insurance regulators in engaging and collaborating with FEMA on an ongoing basis.
   B. Liaise with insurers and FEMA to provide timely information to necessary parties following a catastrophic loss.

C. Discuss ways in which states in the same FEMA region can collaborate and share information with other states in their FEMA region.

5. The **Terrorism Insurance Implementation (C) Working Group** will:
   A. Coordinate the NAIC's efforts to address insurance coverage for acts of terrorism. Work with the U.S. Department of the Treasury's (Treasury Department's) Terrorism Risk Insurance Program (TRIP) Office on matters of mutual concern. Discuss long-term solutions to address the risk of loss from acts of terrorism.
   B. Review and report on data collection related to insurance coverage for acts of terrorism.

6. The **Transparency and Readability of Consumer Information (C) Working Group** will:
   A. Facilitate consumers' capacity to understand the content of insurance policies and assess differences in insurers' policy forms.
   B. Assist other groups with drafting language included within consumer-facing documents.
   C. Develop voluntary regulatory guidance for disclosures for premium increases related to P/C insurance products.
   D. Update and develop web page and mobile content for *A Shopping Tool for Homeowners Insurance* and *A Shopping Tool for Automobile Insurance*, as needed.
   E. Study and evaluate ways to engage department of insurance (DOI) communication with more diverse populations, such as rural communities.

NAIC Support Staff: Aaron Brandenburg

Member Meetings/C CMTE/2024 Fall/Ccmte 2025draftcharge.Docx

Draft: 11/5/24

Adopted by the Executive (EX) Committee and Plenary, Dec. __, 2024
Adopted by the Sample (S) Committee, Dec. __, 2024
Adopted by the Sample (S) Task Force, Oct. 7, 2024

2025 Proposed Charges

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

The mission of the Casualty Actuarial and Statistical (C) Task Force is to identify, investigate and develop solutions to actuarial problems and statistical issues in the property/casualty (P/C) insurance industry.

The Task Force's goals are to assist state insurance regulators with maintaining the financial health of P/C insurers; ensuring P/C insurance rates are not excessive, inadequate or unfairly discriminatory; and ensuring that appropriate data regarding P/C insurance markets are available.

1. The **Casualty Actuarial and Statistical (C) Task Force** will:
   - A. Provide reserving, pricing, ratemaking, statistical, and other actuarial support to NAIC committees, task forces, and/or working groups. Propose changes to the appropriate work products, with the most common work products noted below, and present comments on proposals submitted by others relating to casualty actuarial and statistical matters. Monitor the activities regarding casualty actuarial issues, including the development of financial services regulations and statistical reporting, including disaster.
     - i. Property and Casualty Insurance (C) Committee: Ratemaking, reserving, or data issues.
     - ii. Blanks (E) Working Group: Property/casualty (P/C) annual financial statement, including Schedule P; P/C quarterly financial statement; and P/C quarterly and annual financial statement instructions, including the Statement of Actuarial Opinion (SAO) and Actuarial Opinion Summary Supplement.
     - iii. Capital Adequacy € Task Force: P/C risk-based capital (RBC) report.
     - iv. Statutory Accounting Principles (E) Working Group: *Accounting Practices and Procedures Manual* (AP&P Manual), and review and provide comments on statutory accounting issues being considered under *Statement of Statutory Accounting Principles (SSAP) No. 65—Property and Casualty Contracts*.
     - v. Speed to Market (D) Working Group: P/C actuarial sections of the *Product Filing Review Handbook*.
   - B. Monitor national casualty actuarial developments, and consider regulatory implications.
     - i. Casualty Actuarial Society (CAS): Statements of Principles and Syllabus of Basic Education.
     - ii. American Academy of Actuaries (Academy): Standards of Practices, Council on Professionalism, and Casualty Practice Council.
     - iii. Society of Actuaries (SOA): Anticipated changes to education pathways.
     - iv. Federal legislation.
   - C. Facilitate discussion among state insurance regulators regarding rate filing issues of common interest across the states through the scheduling of regulator-to-regulator meetings.
   - D. Conduct the following predictive analytics work:
     - i. Facilitate training and the sharing of expertise through predictive analytics webinars (Book Club).
     - ii. Coordinate with the Innovation, Cybersecurity, and Technology (H) Committee and the Life Actuarial (A) Task Force on the tracking of new uses of artificial intelligence (AI), auditing algorithms, product development, and other emerging regulatory issues. Discuss regulatory oversight of AI and machine learning (ML) in insurers' ratemaking, reserving, and other activities.
Attachment Four
     - iii. With the NAIC Rate Model team's assistance, discuss guidance for the regulatory review of models used in rate filings.
   - E. Research cyber liability insurance, and discuss regulatory data needs.

2. The **Actuarial Opinion (C) Working Group** will:
   A. Propose revisions to the following as needed, especially to improve actuarial opinions, actuarial opinion summaries, and actuarial reports, as well as the regulatory analysis of these actuarial documents and loss and premium reserves:
      i. *Financial Analysis Handbook.*
      ii. *Financial Condition Examiners Handbook.*
      iii. *Annual Statement Instructions—Property/Casualty.*
      iv. Regulatory guidance to appointed actuaries and companies.
      v. Other financial blanks and instructions, as needed.
      B. Assess the need for changes to the Property and Casualty Statement of Actuarial Opinion instructions upon release of the SOA's proposed changes to its education pathways.

3. The **Statistical Data (C) Working Group** will:
   A. Consider updates and changes to the *Statistical Handbook of Data Available to Insurance Regulators* to improve data quality and reporting standards.
   B. Consider updates and developments, provide technical assistance, and oversee the production of the following reports and databases. Periodically, evaluate the demand and utility versus the costs of production of each product.
      i. *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance* (Homeowners Report).
      ii. *Auto Insurance Database Report* (Auto Report).
      iii. *Competition Database Report* (Competition Report).
      iv. *Report on Profitability by Line by State Report* (Profitability Report).
   C. Enhance the expedited reporting and publication of average auto and average homeowners premium portions of the annual Auto Report and Homeowners Report.

NAIC Support Staff: Kris DeFrain/Roberto Perez/Libby Crews

Draft: 7/22/24
Adopted by the Executive (EX) Committee and Plenary—
Adopted by the Property and Casualty Insurance (C) Committee—
Adopted by the Surplus Lines (C) Task Force Aug. 13, 2024

2025 Proposed Charges

SURPLUS LINES (C) TASK FORCE

The mission of the Surplus Lines (C) Task Force is to monitor the surplus lines market and regulation, including the activity and financial condition of U.S. and non-U.S. surplus lines insurers participating in the U.S. market, by providing a forum for discussion of issues and to develop or amend relevant NAIC model laws, regulations, and/or guidelines.

The **Surplus Lines (C) Task Force** will:

A. Provide a forum for discussion of current and emerging surplus lines-related issues and topics of public policy and determine appropriate regulatory response and action.
B. Review and analyze industry data on U.S. domestic and non-U.S. surplus lines insurers participating in the U.S. market.
C. Monitor federal legislation related to the surplus lines market and ensure all interested parties remain apprised.
D. Develop or amend relevant NAIC model laws, regulations, and/or guidelines.
E. Oversee the activities of the Surplus Lines (C) Working Group.

The **Surplus Lines (C) Working Group** will:

A. Operate in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings and in open session when discussing surplus lines topics and policy issues, such as amendments to the International Insurers Department (IID) Plan of Operation.
B. Maintain and draft new guidance within the IID Plan of Operation regarding standards for admittance and continued inclusion on the NAIC *Quarterly Listing of Alien Insurers*.
C. Review and consider appropriate decisions regarding applications for admittance to the NAIC *Quarterly Listing of Alien Insurers*.
D. Analyze renewal applications of alien surplus lines insurers on the NAIC *Quarterly Listing of Alien Insurers* and ensure solvency and compliance per the IID Plan of Operation guidelines for continued listing.
E. Provide a forum for surplus lines-related discussion among jurisdictions.

Draft: 10/5/2024
Adopted by the Executive (EX) Committee and Plenary, XX. --, 2024
Adopted by the Property and Casualty Insurance (C) Committee, Nov. --, 2024
Adopted by the Title Insurance (C) Task Force, Oct. 4, 2024

2025 Proposed Charges

TITLE INSURANCE (C) TASK FORCE

The mission of the Title Insurance (C) Task Force is to …

1. The **Title Insurance (C) Task Force** will:
    A. Discuss and/or monitor issues and developments affecting the title insurance industry, and provide support and expertise to other NAIC committees, task forces and/or working groups, or outside entities, as appropriate.
    B. Review and assist various regulatory bodies in combating fraudulent and/or unfair real estate settlement activities. Such efforts could include working with the Antifraud (D) Task Force and other NAIC committees, task forces, and/or working groups to combat mortgage fraud and mitigating title agent defalcations through the promotion of closing protection letters (CPLs) and other remedies.
    C. Consult with the Consumer Financial Protection Bureau (CFPB) and other agencies responsible for information, education, and disclosure for mortgage lending, closing, and settlement services about the role of title insurance in the real estate transaction process.
    D. Update the *Survey of State Laws Regarding Title Data and Title Matters report* and the *Title Insurance Consumer Shopping Tool Template* as needed.
    E. Stay abreast of consumer issues and complaints submitted to states regarding title insurance. Consider regulatory best practices or standards related to consumer protection.
    F. Evaluate alternative title products and provide guidance to state insurance regulators as needed.

Draft: 10/24/24

Adopted by the Executive (EX) Committee and Plenary, Dec. __, 2024
Adopted by the [Insert name of the parent committee], Nov. __, 2024
Adopted by the Workers' Compensation (C) Task Force], Oct. 23, 2024

2025 Proposed Charges

WORKERS' COMPENSATION (C) TASK FORCE

The mission of the Workers' Compensation (C) Task Force is to study the nature and effectiveness of state approaches to workers' compensation and related issues, including, but not limited to: assigned risk plans; safety in the workplace; treatment of investment income in rating; occupational disease; cost containment; and the relevance of adopted NAIC model laws, regulations and/or guidelines pertaining to workers' compensation.

Ongoing Support of NAIC Programs, Products, or Services:

1. The **Workers' Compensation (C) Task Force** will:

   A. Oversee the activities of the NAIC/International Association of Industrial Accident Boards and Commissions (IAIABC) Joint (C) Working Group.

   B. Discuss issues with respect to advisory organizations, rating organizations, statistical agents, and insurance companies in the workers' compensation arena.

   C. Monitor the movement of business from the standard markets to the assigned risk pools. Alert state insurance department representatives if the growth of assigned risk pools changes dramatically.

   D. Follow workers' compensation issues regarding cannabis in coordination with the Cannabis Insurance (C) Working Group.

   E. Discuss issues affecting workers' compensation.

2. The **NAIC/International Association of Industrial Accident Boards and Commissions (IAIABC) Joint (C) Working Group** will:

   A. Study issues of mutual concern to state insurance regulators and the IAIABC. Review relevant IAIABC model laws and white papers and consider possible charges based on the Working Group's recommendations.

NAIC Support Staff: Sara Robben/Aaron Brandenburg

Attachment Five

QuantivRisk

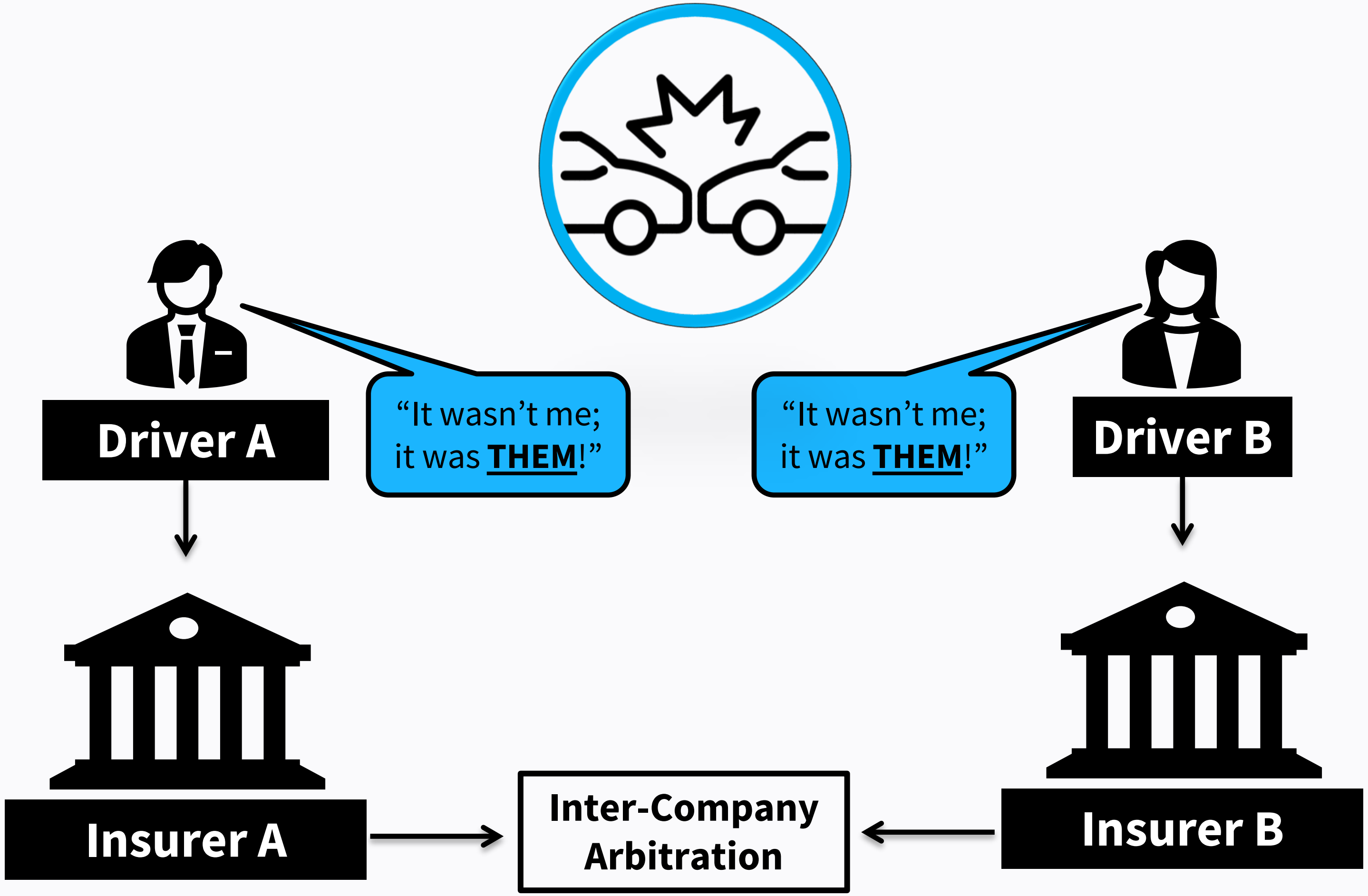
Truth Through Transparency:

The Intersection of Advanced Vehicle Technology & Auto Claim Adjudication

November 2024

Attachment Six

Auto Liability Claim Adjudication – Driver vs. Driver

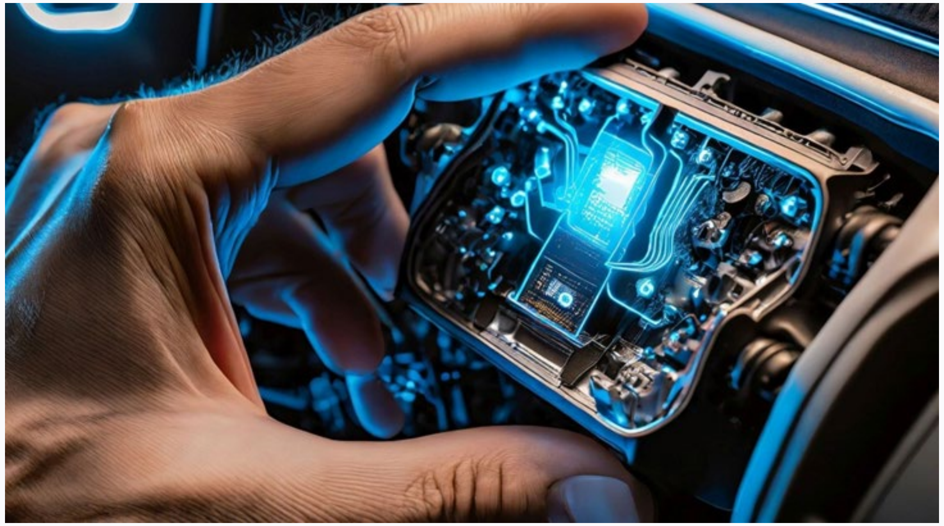


Current Process is:

- Inefficient
- Unfair
- Totally Subjective

Recording and Analyzing Vehicle Data

Attachment Five

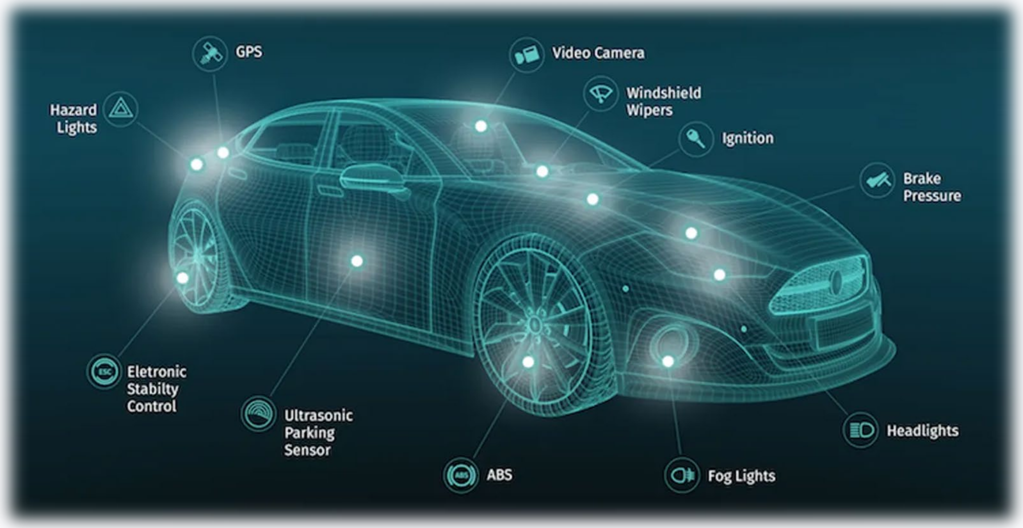


1. Event Data Recorder (EDR) (Black Box)
   - Limited number of signals – 15 - 30
   - Captures for 5 seconds before crash and rolls over
   - Tracks data at tenths of a second
   - Available through physically accessing the car
2. Telematics Data – Cellular Data
   - Assessing driver behavior
   - Proxy for what is happening in car
3. Vehicle Performance Data (VPD) – Data captured or generated by vehicle
   - Several 1,000 signals
   - Captures for days, weeks and months prior to crash
   - Tracks at thousandths of a second
   - Communicates data and video over-the air
4. Future - Data Loggers will replace or augment EDRs

Attachment Five

The Proliferation of Advanced Driving Assistance Systems (ADAS)

1. 92.7% of cars produced have at least one ADAS Feature[1].
2. 34.0% offer full ADAS packages as standard equipment or optional equipment[2].
3. 68.9% expected growth between 2025-2030[3].

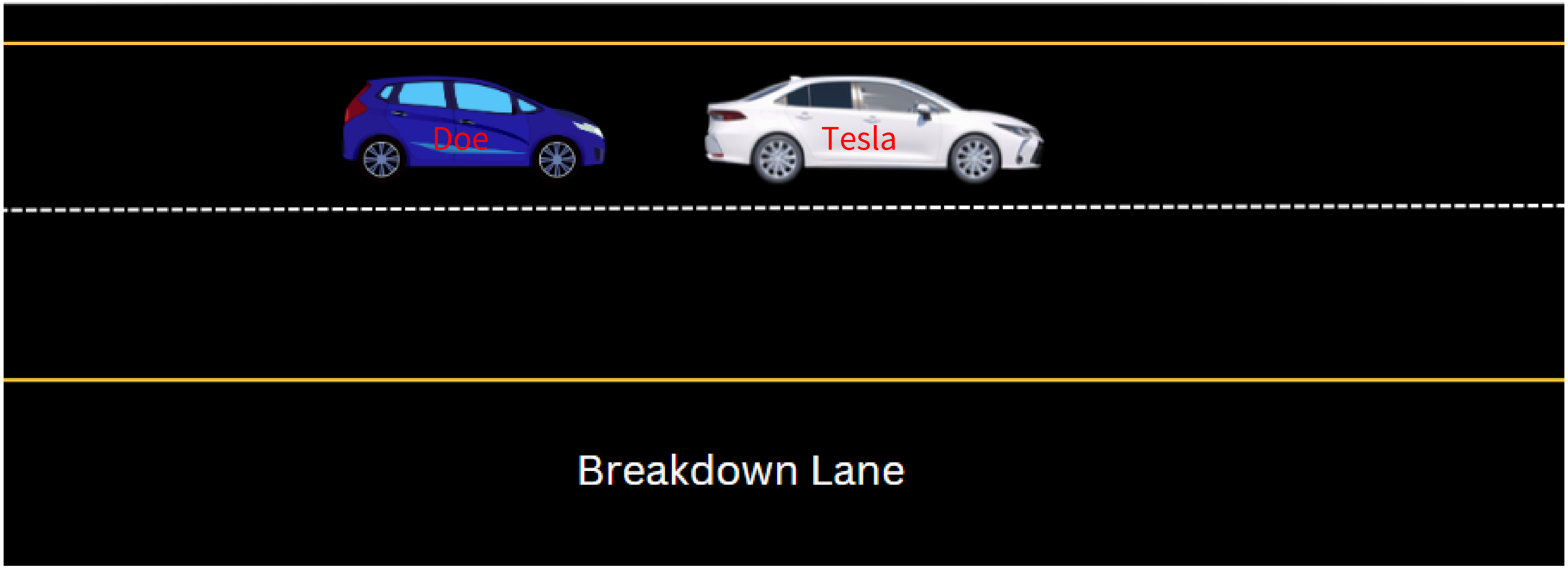


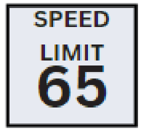
1. AAA Advanced Driver Assistance Technology Names, January 2019
2. AAA: Evaluation of Advanced Driver Assistance Systems, August 2020
3. Market and markets: https://www.marketsandmarkets.com/Market-Reports/near-autonomous-passenger-car-market-1220.html

Attachment Five

Liability Assessment

Before Data and Video





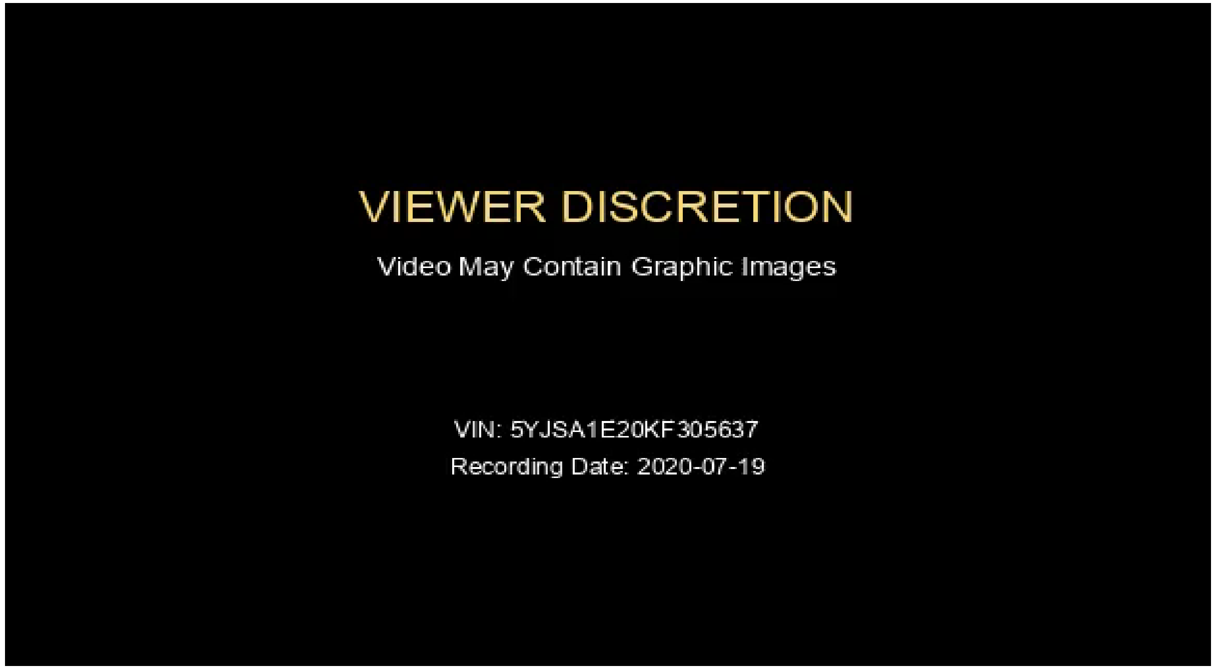
FNOL Statement of the Accident:

- Blue car driver and witness said insured car stopped in the middle of the highway
- Police report cited Insured car driver for "failure to maintain speed"
- Blue car insurer denied liability

Who caused the accident?

Attachment Five

Rear Camera

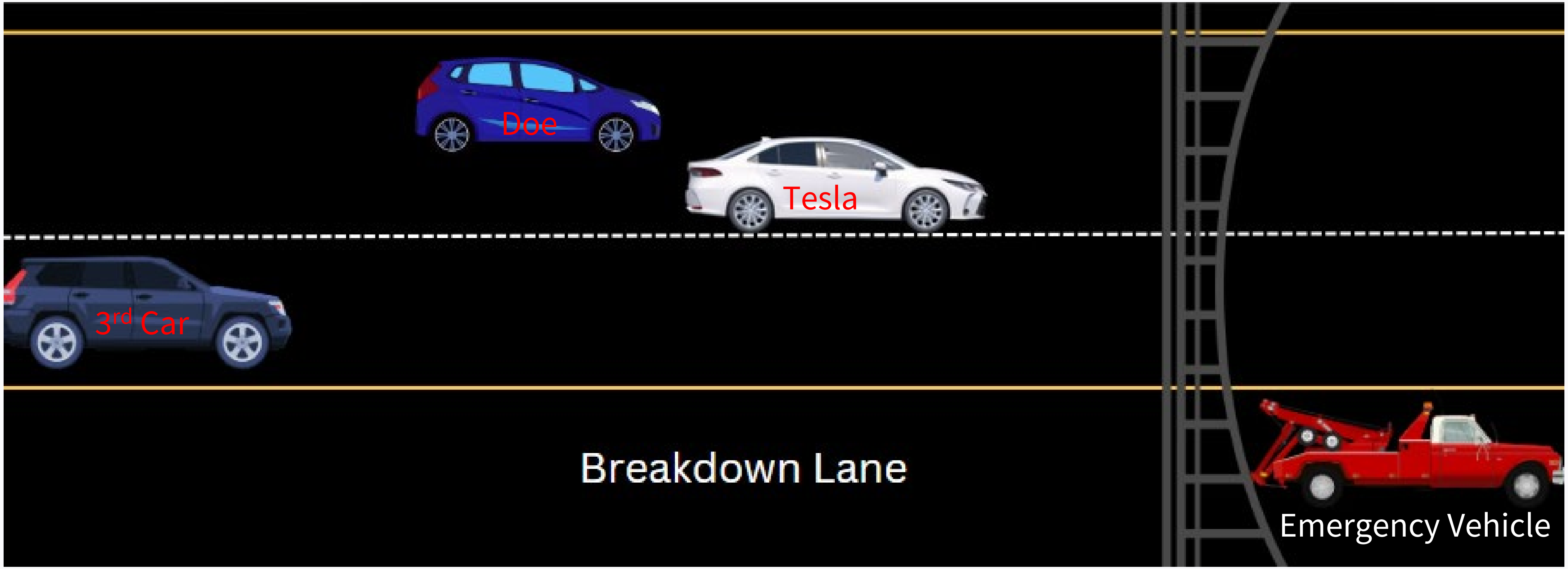


Front Camera

Attachment Five

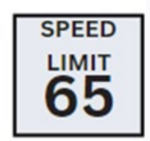
Liability Assessment

<u>After</u> Video and Data



<u>After reviewing the video and data:</u>

- Blue car was aggressively pushing up on insured's car in excess of 80 MPH
- Insured tried to move to right lane through using car's Advanced Driver Assist System (ADAS) Auto Lane Change feature
- Insured car started the lane change, and the car ABORTED, moving back to left lane
- Car speed never dropped below 55 MPH
- ***BLUE CAR INSURER ACCEPTED LIABILITY***



Experience with Insurers

Attachment Five

- Drivers do not comprehend how the vehicle was functioning or why crash happened
- Claim Adjusters are not aware that this information exists and therefore not asking for it or know how to obtain it
- In one QR study, 90% of the claims reviewed, claims adjusters determined 100% of the responsibility for the accident applied to the policyholder, resulting in rate increases and deductible application to the policyholder
- Other parties may have responsibility for the accident and are not being included (Road Contractors, Auto OEMs, etc.)
- Auto OEMs are funding their R&D through insurer claim payments

QuantivRisk

Replacing Subjectivity with Objectivity

A Neutral Platform that leverages **Vehicle Performance Data** to serve as an **objective clearing house** between

Insurers
Consumers
Auto OEMs
Law Enforcement
Lawyers
Regulators

bringing **transparency, accuracy & efficiency** to **crash investigations & claim processing**

VPD Data Is Impacting Consumers and Insurers

Vehicle Performance Data is having a material impact upon the collision ecosystem:

Consumer Protection

- Improved claim settlement accuracy & efficiency
- Reduced frictional cost in claim settlement
- Potentially lower automobile insurance rates
- Enhanced customer experience with claim adjusters who understand advanced vehicle systems

Institutional Solvency & Financial Stability

- Improved loss adjustment expenses, fraud detection, and accurate loss cost
- Awareness of underwriting risk associated with advanced vehicle systems
- Accountability of OEMs in accidents / OEM product development testing costs incurred by insurers AND consumers
- Insurers are at a competitive disadvantage as OEMs that have insurance operations are already leveraging this data

QuantivRisk's Early Results

- Policyholders are giving consent to get the data in the context of an accident
- Increased accuracy in liability assessment for policyholder
- Faster assessment of liability
- Avoidance or shortening of steps in claim resolution
  - Greater than 40% reduction in claim cycle times
- Quicker and easier communication between claim adjuster and policyholder
- Clearer identification of subrogation / arbitration with other parties
- Improved Fraud determination

- **Challenges**
  - Claim Adjuster Education
  - Current Claim Adjudication Operating Model

Attachment Five

Compliance & Consent

- Vehicle Performance Data is used to understand an event and is obtained with the vehicle owner's permission
- In most cases the vehicle owner or leasee obtains the vehicle performance data themselves directly from the OEM
- The insurer or QuantivRisk obtains owners written authorization to access
- QuantivRisk does not disseminate Personally Identifiable Information (PII) to third parties

Compliance & Consent

- Federal Rule - Event Data Recorder (EDR) Rules – Federal Rule
  - SEC. 24302. LIMITATIONS ON DATA RETRIEVAL FROM VEHICLE EVENT DATA RECORDERS.
  - (a) Ownership of Data.-Any data retained by an event data recorder (as defined in section 563.5 of title 49, Code of Federal Regulations), regardless of when the motor vehicle in which it is installed was manufactured, is the property of the owner, or, in the case of a leased vehicle, the lessee of the motor vehicle in which the event data recorder is installed.
  - § 563.5 Definitions.
  - Event data recorder (EDR) means a device or function in a vehicle that records the vehicle's dynamic time-series data during the time period just prior to a crash event (e.g., vehicle speed vs. time) or during a crash event (e.g., delta-V vs. time), intended for retrieval after the crash event. For the purposes of this definition, the event data do not include audio and video data

- State EDR Rule - Arkansas AR Code § 23-112-107 (2023)

  (2) "Motor vehicle event data recorder" means a factory-installed feature in a motor vehicle that does one (1) or more of the following:

  (A) Records, stores, transmits, or dispenses any of the following information for the purpose of retrieval after a crash:

  i. Vehicle speed:
  ii. Vehicle direction;
  iii. Vehicle location;
  iv. Steering performance; or
  v. Seat belt restraint status;

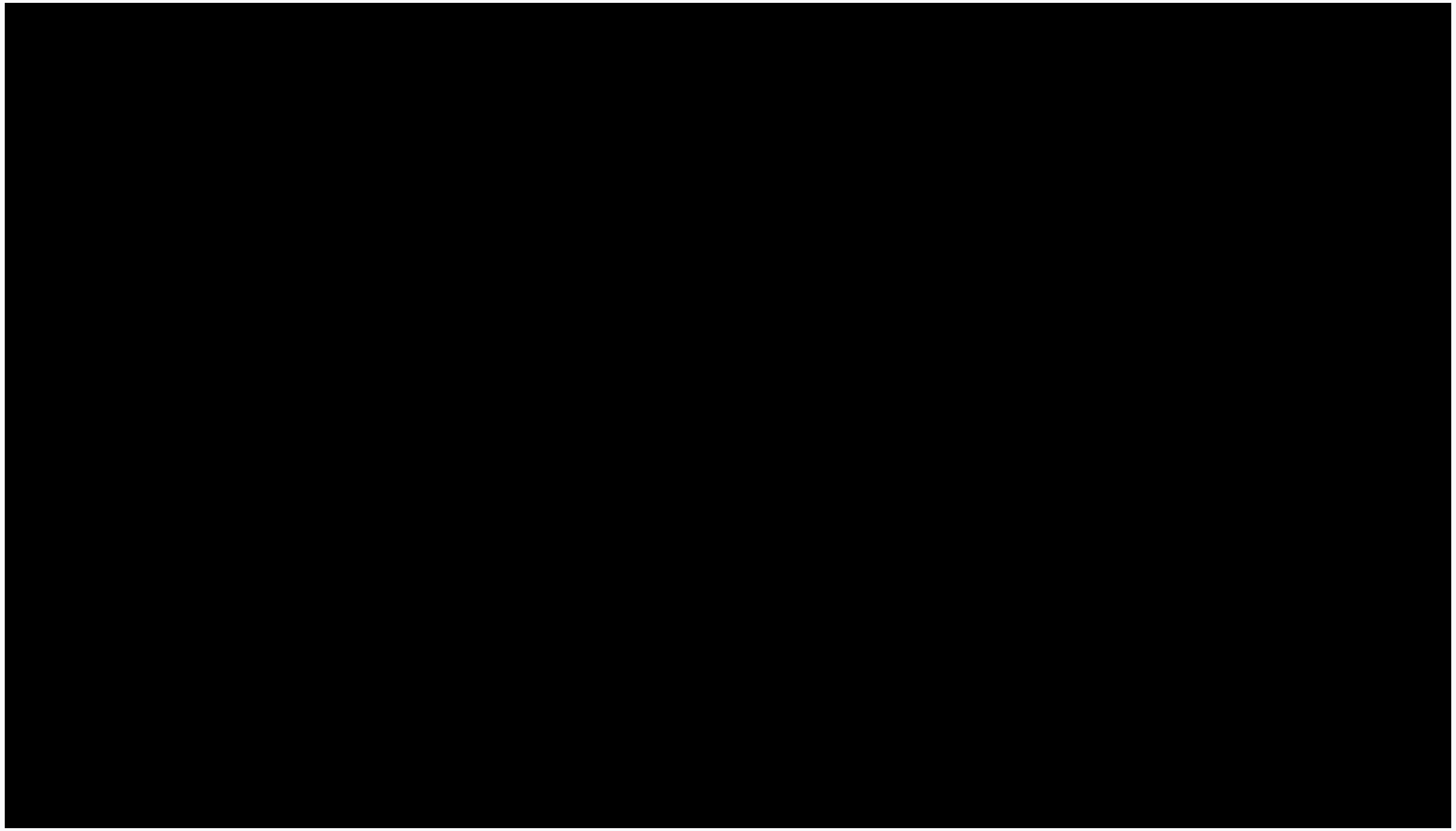
  (B) Has the capacity to transmit information concerning a crash in which the motor vehicle has been involved to a central communications system when a crash occurs; or

  (C) Includes a sensing and diagnostic module, restraint control module, electronic throttle control, or other similar component

- Embedded in Some Automobile Sales Contracts

Actually Smart Summon

- Tesla Actually Smart Summon (ASS) - Released As Over the Air Update, September 2024 Version 2024.27.20



Attachment Five

What does this mean to insurers and regulators?

1. Regulators need to educate themselves
2. Removal of outdated legislation
3. Proper pathway to consent
4. Liability assessment – evolving role of adjuster
5. Improved claim accuracy and efficiency benefiting policyholders
6. Assessment of Auto OEM’s and other party’s accident responsibility

Thank You

UNLOCK THE POWER OF CAR DATA

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QuantivRisk Executive Team

Chairman & Founder

Mike is a self-described mobility nerd, trial attorney, and strategist. He draws on his lifelong experience in the mobility sector. Many professionals claim to understand these unusual risks. But few, if any, have the 40 years of experience Mike has enjoyed as an automotive mechanic, strategist, business owner, insurance industry leader, regulatory attorney, and litigator. He is also an active member of the Society of Automotive Engineers (SAE) and serves on SAE's Event Data Recorder committee (J1698) and SAE's Advanced Driving System Data Logger Working Group Task Force (J3197).

The foundation of Mike's professional life is built upon his 31 years as a commercial litigator and regulatory attorney. Mike's litigation experience includes class action, multidistrict litigation, trial, and appellate work. He has litigated matters in most states in the United States and is licensed in five jurisdictions and admitted to practice in 20 U.S. district and circuit courts and the U.S. Supreme Court. Mike began his professional career in 1981 with Met Life Auto & Home where he started as a claims adjuster trainee and departed Met in 1992 as its regional claim leader for the mid-Atlantic region.

Mike was appointed to and currently serves on the RAND Corporation's Institute for Civil Justice Board of Advisors. Mike also practices law, at the boutique law firm he recently founded, Nelson Niehaus LLC (www.nelson.legal) with offices in New York, Cleveland and Washington, D.C.

Chief Executive Officer

John Pettit is an entrepreneurial executive with over 20 years of experience leading and growing innovative technology companies. He is a catalyst in creating high-performing world-class technology management and product development teams in both start-up and scaled growth stage companies. He currently serves as the CEO of QuantivRisk and is on the advisory boards of technology firms Federato, IntellAgents, a FatBrain company, and is a mentor with the InsurTech New York Incubator.

Prior to his position with QuantivRisk he was Sapiens International's Chief of North American Strategy and Head of North American Property & Casualty Insurance Software. Previously he was founder and CEO of Adaptik Corporation, a startup insurance technology firm that he grew and eventually sold to Sapiens.

Before founding Adaptik, John founded and served as Vice President for the Insurance Software Products Division of MTW Corporation. John was a Consultant with Coopers and Lybrand's Financial Services Practice and an Underwriting Officer at Chubb Insurance Companies. He holds a master's degree in business administration from Fordham University's Gabelli School of Business and a bachelor's degree in Economics from Hobart College.

FortressFire®
Wildfire Risk Solutions

Attachment Six

Using Fire Science and Data to Deliver Home Resilience and Lower Insurance Rates

FortressFire Presentation to
NAIC Property & Casualty Committee

November 2024

FortressFire
Wildfire Risk Solutions

A California Headquartered InsurTech Company

Founded to **Protect Homes and Commercial Properties** from wildfires

Focused on **Improving the Availability and Affordability of Insurance** in wildfire areas

Provide **Property Owners, Insurers, and Lenders** with tools and services to Understand Wildfire Risks and Mitigate the Risk to Near Zero.

The Growing Wildfire Problem and Insurance Impact

Attachment Four

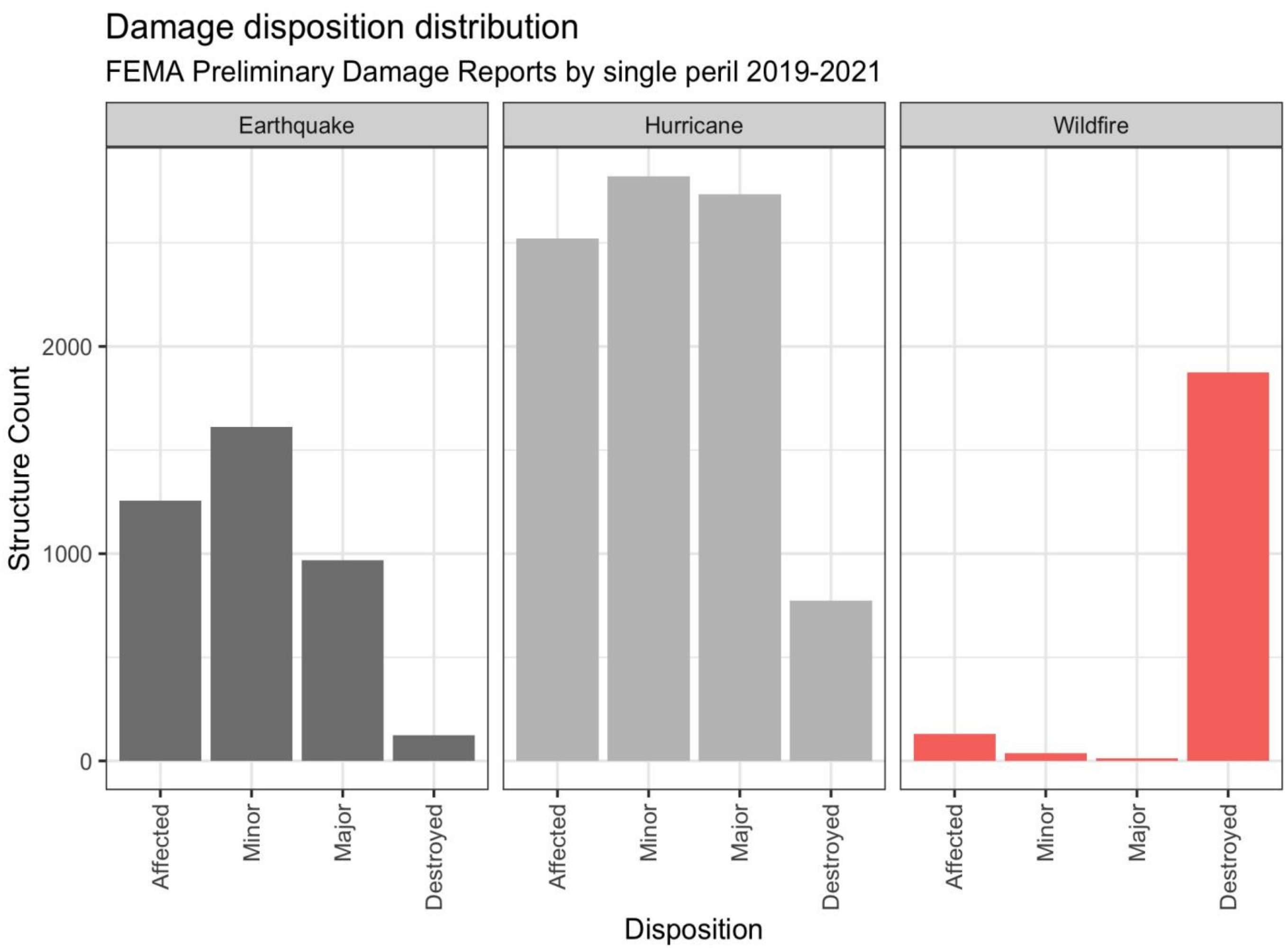
Attachment Six

- 45 million homes located in wildfire-exposed areas of the Western U.S.
- Wildfires are increasing nationwide in frequency, scope, damage, and impact to homeowners, banks, and real estate and insurance professionals.
- Insurance coverage has become more expensive, difficult to secure, and insufficient to cover potential losses.

Wildfire Peril Demands Greater Precision

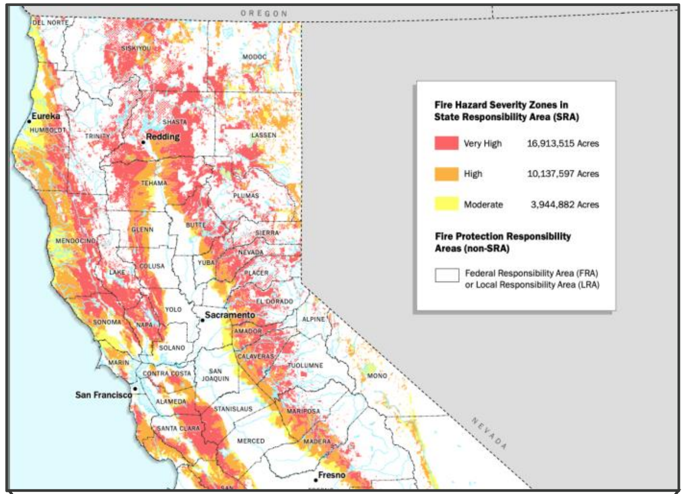
Attachment Four

Attachment Six



- Unlike other perils, **wildfire outcomes are binary in nature.**
- Current wildfire models predict more wildfires that are more severe, and therefore increased losses.
- FortressFire's **wildfire vulnerability score** uses energy models that evaluate **5 ignition vectors** of structure loss.
- After understanding a structure’s wildfire vulnerability, **actionable and accurate mitigation** can then **bring the ignition risk to near-zero.**

Enhance Risk Modelling with Physics-Based Vulnerability



12,341,162 structures in California

2,057,162 rated medium-to-very-high hazard

91,884 in wildfire perimeters from 2013-2023

52,205 lost

With the hazard population and loss costs growing, we need additional tools to address losses.

Hazard Model + Vulnerability Model + Mitigation

Science-based property-level assessments can cost-effectively guide mitigations and stop wildfires from destroying homes. This restores a stable, sustainable insurance marketplace that aligns the interests of consumers, insurers, lenders, and government.

- Homes do not burn
- Greater insurance access and affordability options for Consumers
- Better risk/rate financial results and fewer losses for Insurers and Lenders
- Lower exposure to catastrophes and bail-outs for State Agencies
- Less environmental fall-out from structure burn sites for Communities

FortressFire's Vulnerability Model Solves the Underlying Problem of Wildfire Ignition Risk to Structures


Attachment Six

Aerial Risk Report

Attachment Six

Identifies initial score and structure’s wildfire ignition risk vectors.

Defines cost-effective science-based mitigation actions to stop the home from burning.

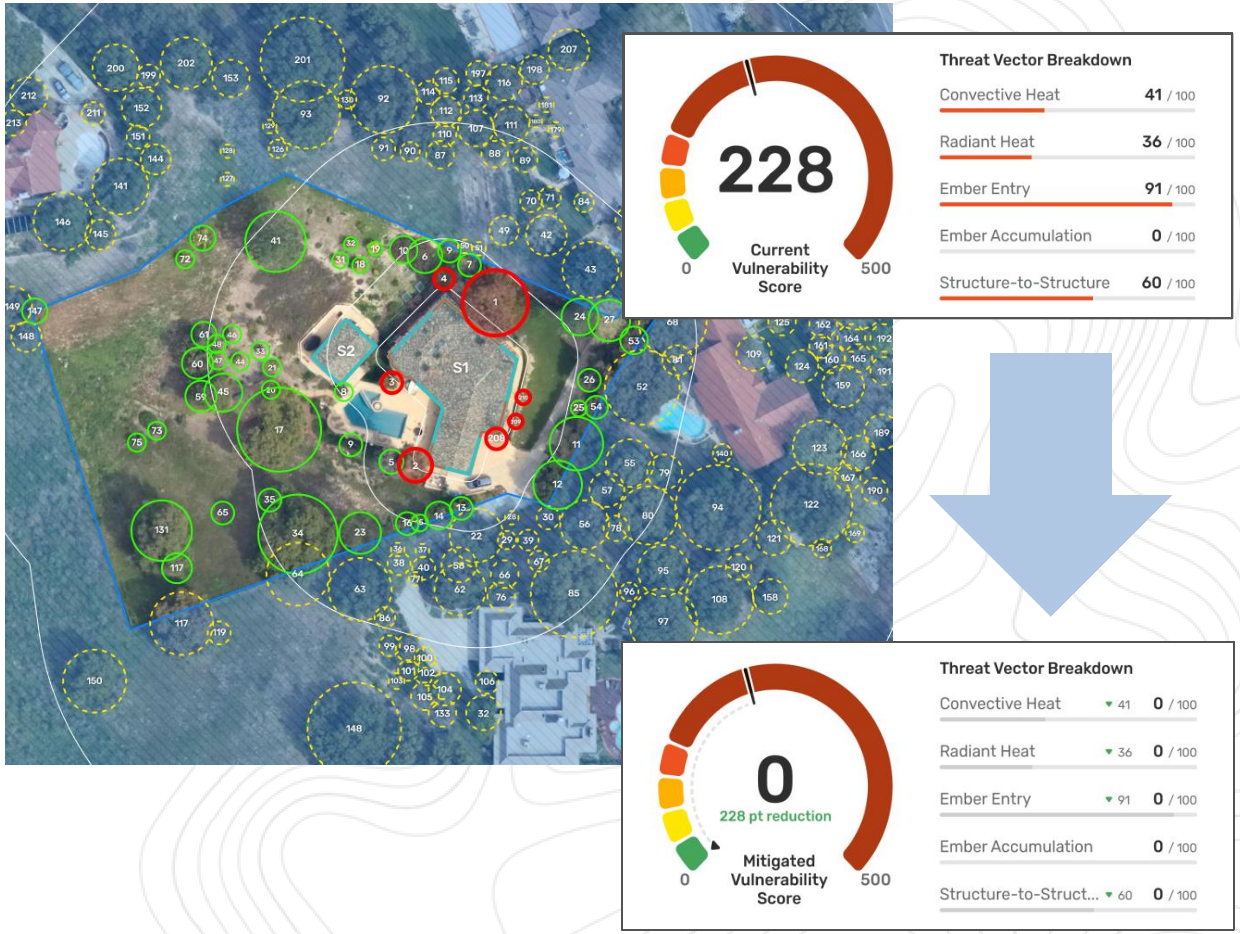
- Uses **fire physics, data, and aerial images** to model vulnerabilities through five ignition vectors
- Leverages weather, topography, and parcel/structure characteristics as **inputs** affecting fire vectors to the home
- Vulnerability Score supports **confidence** in real estate transactions and insurability conversations (California Association of REALTORS)

Onsite Inspection, If Needed

Attachment Six

Refines precision of the Aerial Risk Report and customized mitigation for that property by fire vector followed by a post-mitigation scoring.

- Provides **comprehensive data and analysis** of a property's condition
- Includes **mitigation actions and costs** to protect the home from wildfire ignition



Monitoring + Protection Plan Subscriptions

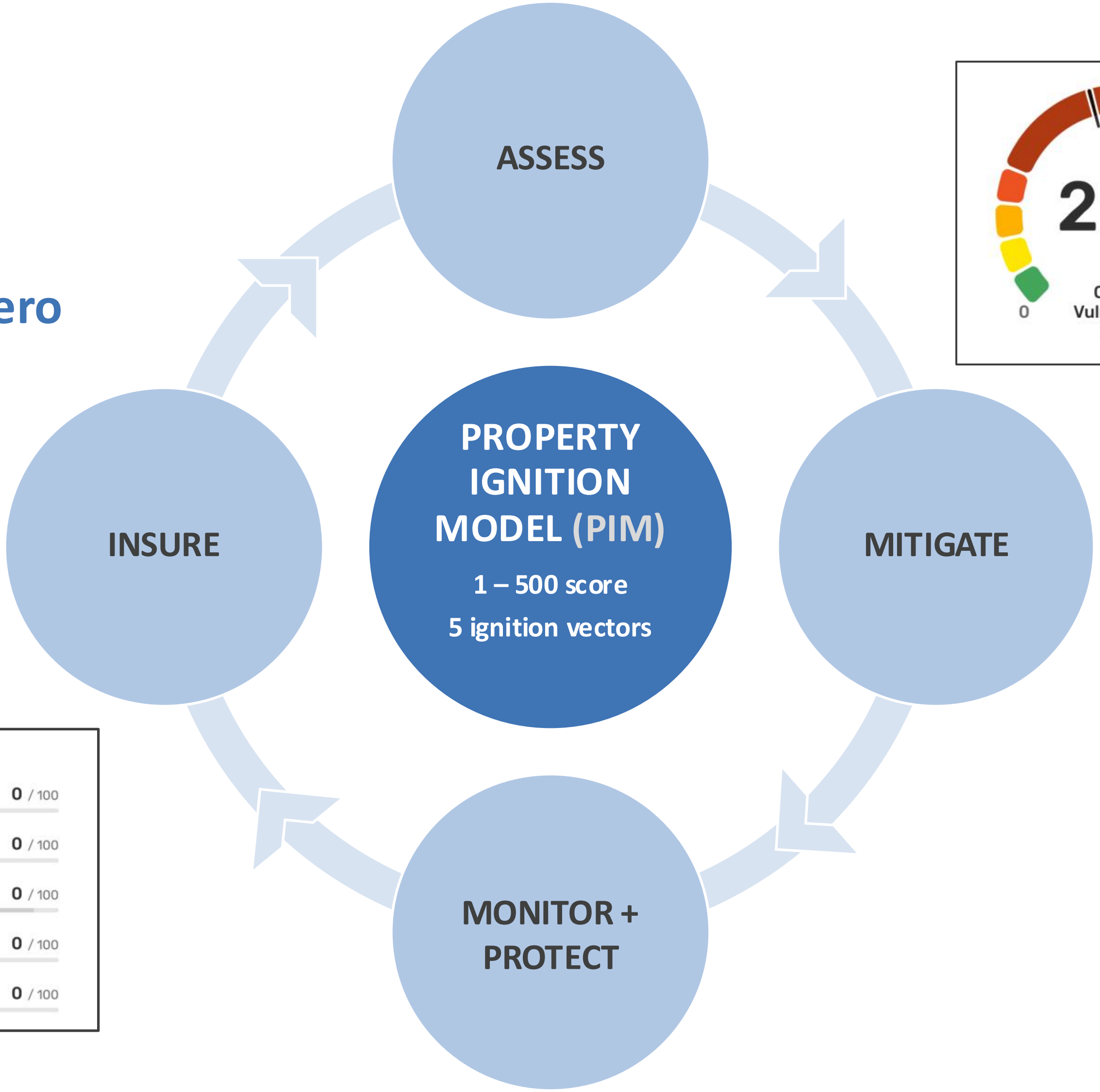
Comprehensive annual subscription plans include homeowner alerts, service visits, event inspections, property preparation, and fire retardant staging.

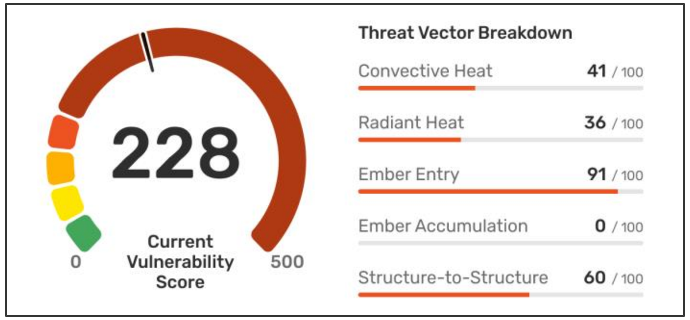
- Tracks property-specific vegetation growth, weather and moisture conditions, structural changes, maintenance services, and wildfire event data to **inform and trigger** protection services
- Ensures that property **remains in mitigated, wildfire-prepared condition** – regardless of insurance status
- Offers optional **onsite fire retardant** delivery, storage, and application

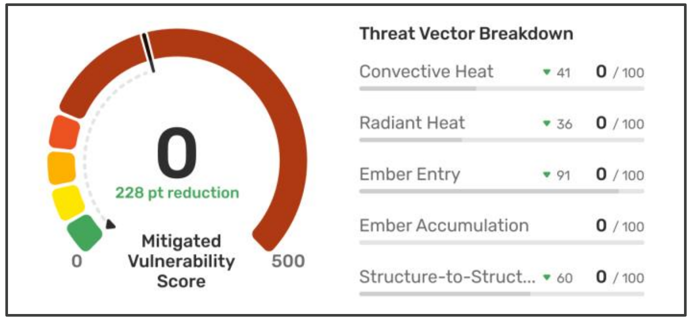
A New Standard for Ignition Risk Evaluation

Attachment Six

FortressFire can identify vulnerabilities of a specific structure and mitigate those vulnerabilities to the point where the home has a near-zero risk of ignition in a wildfire







Back-Test Validates FortressFire Model and Score

Attachment Six

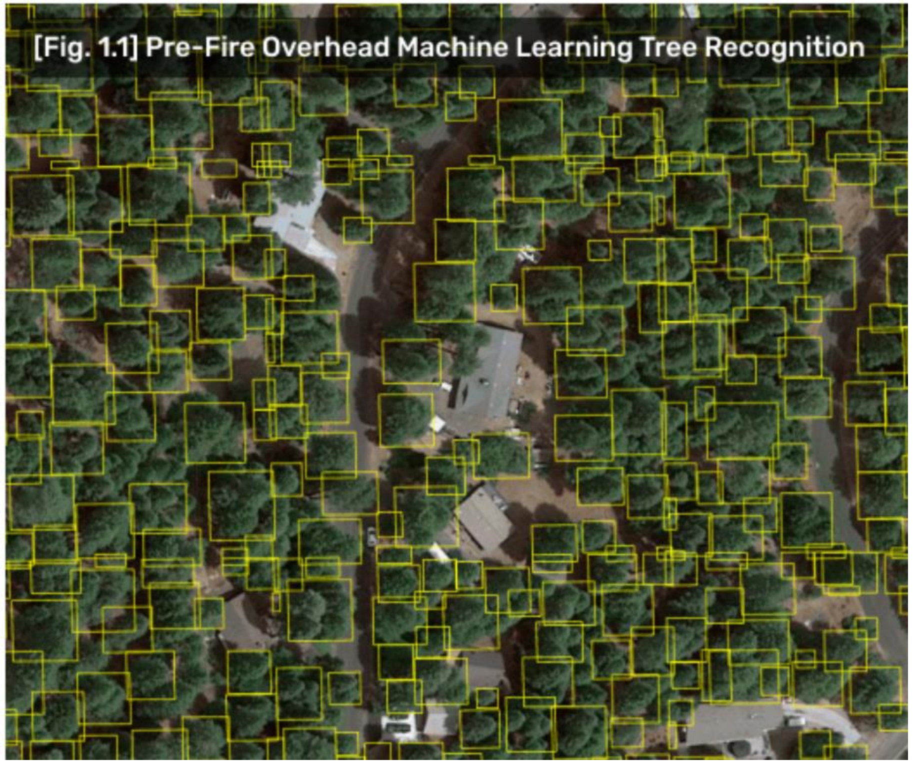
True Positive Rate:	0.93
True Negative Rate:	0.99
Precision:	0.99
F1 Score:	0.96

96% Accuracy In Predicting Which Homes Will Be Destroyed and Which Will Survive Undamaged

Ground truth from sample of 34 fires from CALFIRE 2021 damage inspection data validated the accuracy of FortressFire's Vulnerability Model of Structure-Fuel interaction and Mitigation Solutions

Example of FortressFire Accuracy: Caldor Fire Aerial View

Attachment Six

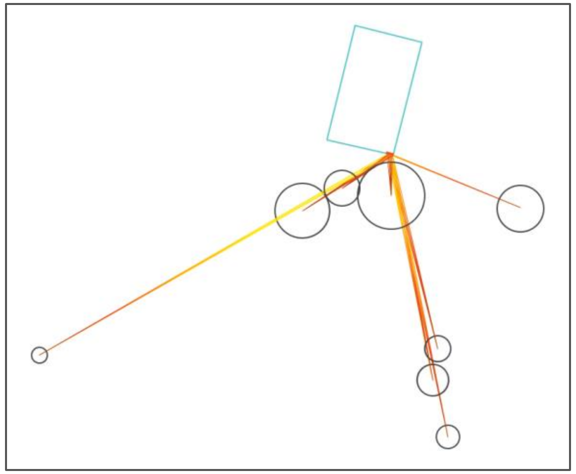


Pre-fire Aerial Image Data

Post-fire Aerial Image Data

Example of FortressFire Accuracy: Caldor Fire Home

Attachment Six



- Convective Heat
- Radiant Heat
- Ember Entry
- Ember Accumulation
- Structure-to-Structure

- Model predicted specific vegetation burns, structure ignition vectors, and ignition point
- Fire Department arrived just after ignition of this Grizzly Flats home and extinguished the fire
- Ignition point location is precisely where FortressFire model predicted it

Fire Science, Physics, and Deterministic Modeling = Comprehensive Wildfire Resilience

Attachment Six

- **Difference**: We understand how wildfires transfer to structures and solve for vulnerabilities to prevent ignition. We do not need to predict the occurrence.
- **Instead**: We *presume* a wildfire, use science to understand how it will ignite a home, and stop ignition.
- Our system is structure-specific, accurate, comprehensive, and cost-effective because it is based on fire physics.
- **Result**: *Lower losses rates* and fewer claims.

Messages to Commissioners:
We Solve the Wildfire-Insurance Problem

Attachment Six

- FortressFire’s tools stop wildfires from igniting structures, so homes are not destroyed.
- Our system understands precise wildfire risks to each home, protects against those risks, and mitigates vulnerabilities so we **stop the fire from igniting the home**.
- When fires do not ignite homes, losses are not incurred, claim frequency is lowered, and the **PROBLEM IS SOLVED**.
- We save families from losing everything in a wildfire because many more homes are spared.
- FortressFire’s approach is different, and **our tools are immediately scalable for any state**.
- FortressFire can enhance your efforts to arrest the wildfire insurance crisis in your state, as we have begun to do in Montana.

Only Fire Science Delivers Comprehensive Wildfire Resilience

Question +

Answer Session

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