Draft date: 8/2/24
*2024 Summer National Meeting*
*Chicago, Illinois*

**PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE**
Thursday, August 15, 2024
12:30 – 2:00 p.m.
McCormick Place Convention Center—S102—Level 1

**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 |
| Amy L Beard | 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 Spring National Meeting Minutes —*Commissioner Alan McClain (AR)* — Attachment One

2. Consider Adoption of its Task Force and Working Group Reports and Minutes — 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. Hear a Federal Update—*Shana Oppenheim (NAIC)*

4. Hear an Update on the Status of the Property and Casualty Market Intelligence (PCMI) Data Call—*Commissioner Alan McClain (AR)*

5. Hear a Presentation on Homeowners Insurance Markets —*Robert Gordon (American Property Casualty Insurance Association—APCIA) and Cate Paolino (National Association of Mutual Insurance Companies—NAMIC)* Attachment Three

6. Discuss Any Other Matters Brought Before the Committee —*Commissioner Alan McClain (AR)*

7. Adjournment

 

## Draft Pending Adoption

Draft: 4/1/24

Property and Casualty Insurance (C) Committee
Phoenix, Arizona
March 18, 2024

The Property and Casualty Insurance (C) Committee met in Phoenix, AZ, March 18, 2024. The following Committee members participated: Alan McClain and Russ Galbraith, Chair (AR); Michael Conway, Co-Vice Chair (CO); Michael Yaworsky, Co-Vice Chair (FL); Mark Fowler (AL); Andrew N. Mais and George Bradner (CT); Amy L. Beard and Patrick O'Connor (IN); Vicki Schmidt (KS); Mike Chaney represented by Andy Case (MS); Scott Kipper (NV); D.J. Bettencourt and Christian Citarella (NH); Alice T. Kane represented by Melissa Robertson (NM); Andrew R. Stolfi (OR); Larry D. Deiter (SD); Tregenza A. Roach (VI); Kevin Gaffney (VT). Also participating were: Cindy Amann (MO); Eric Dunning (NE); and Michael McKenney (PA).

1. Adopted its 2023 Fall National Meeting Minutes

Commissioner Conway made a motion, seconded by Commissioner Yaworsky, to adopt the Committee's Dec. 3, 2023, minutes (*see NAIC Proceedings – Fall 2023, 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 the main discussion topics for the Casualty Actuarial and Statistical (C) Task Force have been centered on the rate-making practice of risk classification. This is where companies have implemented their complex internal models and are using third parties for data and models. He noted the Task Force has two areas of concern. For years, the state regulatory system has relied upon actuarial standards to provide professional guidelines for rate filings. Companies are often no longer using actuaries to make the rate filings, and thus, the quality of actuarial and technical rate filings has diminished. Citarella said that, while not discussed by the Task Force in open session, state insurance regulators need to decide if there is a mechanism that could be used, such as a bulletin, regulation, or even model law, that would provide guidelines for anyone submitting rate filings, not just actuaries.

Citarella noted for filings made by actuaries, actuarial standards adopted by the Actuarial Standards Board (ASB) are used to help govern rates and rate filings. The Task Force submitted comments on the recently exposed new standards for risk classification. Two of the main concerns are that: 1) the Actuarial Standard of Practice (ASOP) would no longer state the purpose of risk classification nor tie risk classification to expected costs or outcomes; and 2) the ASOP diminishes the importance of the concepts of homogeneity and credibility, which are the concepts where an individual risk class should contain similar risks and that those risks are measurable and substantive enough to produce reliable rates.

   B. Surplus Lines (C) Task Force

Director Deiter said the Surplus Lines (C) Task Force has discussed the feasibility of developing a service of process form specifically for the surplus lines industry. The form would address an issue related to the parties to potential lawsuits and the location of those lawsuits. The new service of process form would align with language in the newly adopted *Nonadmitted Insurance Model Act* (#870). He noted the Task Force will hear amendments to the International Insurers Department (IID) Plan of Operation, which is a plan that guides non-U.S. insurers that are currently on the Quarterly Listing of Alien Insurers or are seeking admission to the quarterly listing. The Task Force will also continue progress on the service of process project, and the Task Force will hear and discuss surplus lines industry results.

C. Title Insurance (C) Task Force

Director Dunning said the Title Insurance (C) Task Force is in the process of updating the *Survey of State Insurance Laws Regarding Title Data and Title Matters.* The report includes a compilation of each jurisdiction's laws and regulations regarding title insurance. It is still collecting filings from 14 jurisdictions. It will begin compiling the results to produce the updated report once the filings are complete. The Task Force heard a presentation from October Research on the findings from its *2024 State of the Title Industry Special Report*. Findings show that states are increasing initiatives and actions related to escrow, affiliated business arrangements, joint ventures, and affordable housing. Presenters also shared resources available to state insurance regulators, which include five publications, special reports, annual conferences, webinars, a blog, and a podcast. The Task Force also heard a presentation from the American Land Title Association (ALTA) on a proposed rule from the U.S. Department of the Treasury's (Treasury Department's) Financial Crimes Enforcement Network (FinCEN) on money laundering and residential real estate. The proposed rule would require certain professionals involved in real estate closings and settlements to report information to FinCEN about non-financed transfers of residential real estate to legal entities or trusts.

D. Workers' Compensation (C) Task Force

Commissioner McClain said the Workers' Compensation (C) Task Force plans to meet April 11 to hear about the impact of mental health on the workers' compensation insurance market.

E. Cannabis Insurance (C) Working Group

Commissioner McClain said the Cannabis Insurance (C) Working Group has not met in 2024, but it is seeking feedback on a work plan for 2024. Prospective work plan items include adding a white paper addendum on emerging issues, meeting with cannabis insurance regulators, exploring unique structures created to address coverage needs, and keeping abreast of related movements at the federal level.

F. Catastrophe Insurance (C) Working Group

Amann said the Catastrophe Insurance (C) Working Group heard from Maryland about the catastrophe materials it uses following a catastrophic event. The NAIC will post links to Maryland's information so states are able to use the ideas and language in their own states. She also reported that the Federal Emergency Management Agency (FEMA) is coordinating with insurers and state insurance regulators to make the process for insureds needing documents to get individual assistance more uniform. They met in March, and several insurers and some commissioners from the Southeast Zone also attended. FEMA plans to meet with the NAIC, several insurers, and Working Group and Advisory Group members in April. Commissioners will also be invited to attend. Amann also noted the Catastrophe Modeling Center of Excellence (COE) will be providing some zone training on resilience in April for the Northeast, Southeast, and Western Zones.

G. Terrorism Insurance Implementation (C) Working Group

Commissioner McClain said the Terrorism Insurance Implementation (C) Working Group has not met yet in 2024 but will hear about workers' compensation data during a future meeting.

 

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

Bradner said the Transparency and Readability of Consumer Information (C) Working Group previously exposed its *Premium Increase Transparency Guidance* for a public comment period that ended Feb. 1. The guidance documents are intended to be best practices for states that are interested in implementing rate increase transparency measures to consider. The exposed guidance includes several revisions to better align with Washington state's premium change final rule (R 2022-1). These revisions included the addition of a scope of applicability section and an administrative and notification section. Additionally, the use of a two-phased approach was also incorporated into a new notifications thresholds section. The phased approach allows insurers time to update systems for more detailed reporting. The Working Group plans to meet in the near future to review the comments received.

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

3. <u>Heard a Presentation from UP on Consumer Issues in Homeowners Insurance</u>

Amy Bach (United Policyholders—UP) said affordability issues in homeowners insurance markets are challenging and widespread, while availability problems tend to be regional. She said many state legislatures are active in looking at homeowners insurance. She noted UP has published a document meant to help guide consumers through affordability and availability challenges. She noted consumers and businesses are being affected by increased premiums and nonrenewal issues are a challenge.

Bach said among her standard tips for consumers is to comparison shop by using shopping tools state departments of insurance (DOIs) offer. She said UP can assist states in creating or publicizing shopping guides. She said consumers should request a list of discounts an insurer offers. She also recommends consumers bundle different types of insurance products with one insurance company. She suggested that policyholders should insure their dwelling for replacement cost value and, if possible, buy gap filler products including peril-specific policies for flood or earthquake. She said UP also asks consumers to consider increasing deductible amounts or avoiding filing small claims, which can be challenging for people.

Bach also described updated tips UP has been providing to consumers, such as recommending they begin shopping right away if their policy is nonrenewed. She said consumers should work with an agent or broker and find out what their risk score is and correct any errors. She noted that California has a regulation now that allows the consumer to find out what their risk score is from the company that has nonrenewed them, and if it is based on incorrect information, consumers can fix it. She said she now suggests that consumers may need to consider a surplus lines company even though they are not protected by the guaranty fund and the policy forms, and rates are not regulated. She also said UP has had to tell some policyholders to trim their coverage even though that is something historically they have not recommended.

Bach said California requires 75 days' notice before nonrenewal. Colorado requires 60 days, and the NAIC model is 30 days. She said it would be helpful if consumers had more than 30 days' notice of nonrenewal. She suggested that 60 days would be appropriate.

Bach said UP encourages consumers to do as much mitigation as they can to reduce the risk to their homes. She said many states are trying to bring grant money to policyholders. She cautions consumers to understand what money they might need if they raise a deductible. She noted consumers should understand their state residual market plans and what options they offer.

Bach said UP suggests to consumers that they reduce or eliminate coverage they can live without, such as high-dollar limits on contents or other structures. She said some insurers have automatic coverage on contents or other structures, so she encourages insurers to be more flexible.

Bach said a federal bill calls for a public reinsurance alternative for the worst catastrophes. She said Hawaii has proposed a working group to identify the feasibility of a state-run reinsurance program to offset the liabilities of private reinsurance companies. Idaho legislation also considers a wildfire risk reinsurance mitigation pool. Bach suggested that proposals should be considered that would help those insurers who are writing in areas perceived to be higher risk. She said private reinsurers should not be replaced, but backstops should be considered.

Commissioner Yaworsky said Florida is expanding the My Safe Florida Home program with an additional $200 million to homeowners to harden their homes. He also said Florida is reviewing the mandatory mitigation credit form that every homeowner has access to so that homeowners can provide that form to their insurer and receive credits that the state has approved. Bach said money for grants and mitigation programs is important, and consumers also want to know that if they take mitigation steps, they will receive insurance discounts or have more options. She said it is well known what mitigation steps work for wind and water, less so for wildfire. She said clear rules are necessary for mitigation programs.

Commissioner Stolfi said some insurers say they are not able to identify mitigation discounts or incentives because those are part of their evaluation of a property. He noted he is working with insurers so that insurers can communicate those benefits to consumers. Bach said in California, the Fair Access to Insurance Requirements (FAIR) plan offers up to a 15% discount, which seems meaningful. She noted the Insurance Institute for Business and Home Safety (IBHS) says all steps must be taken to achieve certain certifications, but it is difficult for many people to achieve all steps.

Commissioner Roach said he struggles with recommendations for consumers to trim coverage. Bach said she would only recommend reducing contents and other structures because it is important to have reasonable amounts for Coverage A and to avoid coinsurance penalties. She noted that condominium associations are seeing large price increases and often struggle to avoid coinsurance penalties.

McKenney said the Unfair Trade Practices Act only has a 30-day notice requirement for nonrenewal, and the Committee might wish to consider opening that act to increase the amount of time required. Bach agreed that such a change seems reasonable and would be valuable.

Dave Snyder (American Property Casualty Insurance Association—APCIA) said he would like an opportunity at the Summer National Meeting to present ideas APCIA has in moving forward to improve home insurance markets. He said these issues are shared between consumers, regulators, and insurers. He said he would like to provide potential solutions. He said the basic sources leading to homeowners insurance problems are extreme and volatile weather, increased people and resources in harm's way, long-term increases in asset values, and severe and sudden inflation. He said land use planning and building codes should be discussed. He also stressed that insurers and insurance regulators are not the total solution to these issues. He also said a federal backstop would not be reliable and would intrude too much into state regulation.

4. <u>Heard a Presentation from Guy Carpenter and Eversheds Sutherland on Parametric Products</u>

Roberto Guidotti (Guy Carpenter) said parametric solutions pay a pre-established amount based on the occurrence of a physical event with certain characteristics. The products provide fast payments after an event.

They are versatile, as recoveries can be applied to various economic losses. They are also transparent, as coverage is clear and understood by buyers and sellers. He noted that parametric structures can complement a traditional indemnity program. A traditional indemnity process may take months to settle following claims assessment and policy review. Guidotti noted parametric solutions may have basis risk, which is the difference between the actual parametric payout and the expected payout based on the losses incurred. This can be addressed upfront, during the due diligence, underwriting, and product design process, or through post-payment loss adjustment, implementing provisions requiring any payments exceeding actual loss to be returned to the insured.

Guidotti explained a cat-in-a-grid earthquake parametric cover for Colombia and a tropical cyclone parametric cover for Puerto Rico, which both pay based on certain triggers being met.

Daran Moreira (Eversheds Sutherland) said rules under U.S. insurance laws vary by state. Some state laws mention fortuitous events, while others mention indemnification. Case law also varies by state where courts have interpreted whether certain products or contracts meet the definition under a test of purpose, effect, contents, and import. The key elements of insurance are the assumption of risk, fortuitous events, insurable interest, indemnity for loss, and risk spreading.

Moreira said only a handful of states have adopted rules or guidance that govern parametric products. Some laws authorize captive insurers to write parametric insurance without a requirement for indemnification or proof of loss. Puerto Rico has one of the most expansive regulatory regimes for parametric products by adopting a framework in 2023 that allows for the sale of parametric micro insurance for catastrophe risks in personal lines. Some states have added parametric products to their surplus lines export lists.

Moreira noted both the insurer and insured need to conduct due diligence to address basis risk. Positive basis risk, which is when the payment under the contract exceeds loss, can be addressed in a number of different ways during the due diligence process, such as confirming that the insured has an insurable interest that they are seeking to protect. The other way it can be addressed is through modeling to ensure that the payment is a reasonable estimation of a loss. This is important because, under a parametric product, there is no post-loss adjustment. For negative basis risk, which is the risk to the insured that the payment will not be enough for the loss they suffer, this can be addressed in a few different ways. First, most commonly today, parametric products are purchased by large, sophisticated commercial buyers of insurance who either have their own representation or are aware of the risks they are undertaking to protect themselves using these products. For personal lines products, two ways are typically addressed, either through disclosure or because parametric products are offered as a supplement to traditional products, such as contributing to the payment of deductibles on high-deductible policies or, in the event of a catastrophe at low levels, so-called microinsurance.

Moreira also said form matters in a parametric contract. Contract language should reflect that the "principal object and purpose" of the transaction is indemnity, and parametric insurance should use the language of insurance. "True-up" provisions require the insured to submit proof of loss within a specified period of time. Under these provisions, the insured must return any claims payments in excess of actual losses incurred. This addresses basis risk.

5. <u>Heard an Update on the P/C Market Intelligence Data Call</u>

Commissioner McClain said the property/casualty (P/C) market intelligence data call was issued by states on March 8, which requested homeowners insurance data at a ZIP Code level from several hundred companies, representing more than 80% of the homeowners insurance national market. The data is due June 6. Commissioner McClain said states worked with the U.S. Treasury's Federal Insurance Office (FIO) to agree to provide an anonymized subset of data to FIO to avoid duplication. State insurance regulators will work with companies in the coming months to receive a quality dataset so regulators can better understand changes in their homeowners markets, particularly as they relate to availability and coverage issues. He also noted a regulator steering committee has been established that will work on technical issues, including the important task of finalizing the dataset and setting up a framework for analysis of the data.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024 Spring/National Meeting/C Cmte.docx

 

# Task Force and Working Group Reports and Minutes

*2024 Summer National Meeting*
*Chicago, Illinois*

**CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE**
Tuesday, August 13, 2024
2:00 – 3:30 p.m.

**Meeting Summary Report**

The Casualty Actuarial and Statistical (C) Task Force met Aug. 13, 2024. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Adopted its July 9, June 17, May 7, and March 20 minutes. During these meetings, the Task Force took the following action:
   A. Adopted the following statistical reports: *Report on Profitability by Line by State* (Profitability Report); the *Competition Database Report* (Competition Report), and the *2022 Auto Insurance Database Average Premium Supplement* (Auto Supplement).

3. Heard that the Task Force met July 16, June 18, May 21, and April 16 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss rate filing issues.

4. Heard that the Task Force held Book Club education sessions about predictive modeling on July 23, June 25, May 28, and April 23. Book Club sessions included the following:
   A. Gary Wang (Pinnacle Actuarial Resources Inc.) and Joey Sveda (Pinnacle Actuarial Resources Inc.) presented "Stepping into the Actuarial Modeling Wonderland."
   B. Tammy Schwartz (Guidewire) and Paul Harper (Guidewire) introduced a tool called HazardHub, which focuses on property risk.
   C. Matt Moore (Highway Loss Data Institute—HLDI) presented on electric vehicles.
   D. Sam Kloese (NAIC), April Yu (NAIC), and Roberto Perez Santiago (NAIC) presented recommendations for non-generalized linear model (GLM) model documentation.

5. Adopted the report of the Actuarial Opinion (C) Working Group, including its combined July 23 and Aug. 6 minutes. The Working Group discussed the *Regulatory Guidance on Property and Casualty Statutory Statements of Actuarial Opinion, Actuarial Opinion Summaries, and Actuarial Reports for the Year 2024,* and *the 2025 P/C Statement of Actuarial Opinion Instructions.* Some topics under discussion include documenting: 1) the already-adopted 2024 limitation of qualification documentation to only first appointment and no longer annually thereafter; 2) changes to the Actuarial Standards Board (ASB) Actuarial Standard of Practice (ASOP) No. 36, *Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves*; and the Society of Actuaries (SOA) educational plan.

6. Adopted the report of the Statistical Data (C) Working Group, including its July 29 and May 30 minutes. During these meetings, the Working Group discussed the Profitability Report and the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/ Cooperative Unit Owner's Insurance Report* (Homeowners Report).

7. Received an update on the NAIC Rate Model Review team's newly announced six- to nine-month moratorium on submission of any new rate model filing to the NAIC. The team is currently booked for nine months and will complete all the filings already received, including any initial reviews and any of the related objection reviews. During the moratorium, the Task Force will be asked to consider adjustments to the program. The Executive (EX) Committee will discuss budget considerations and staffing.

8. Heard a presentation from the Casualty Actuarial Society (CAS) on race and insurance.

9. Discussed the private flood insurance supplement and personal flood insurance alien data reported to the International Insurance Department (IID). It is unclear whether the data from the IID is a match to the supplement data.

10. Heard liaison reports about the property/casualty (P/C) actuarial activities in other committees.

11. Exposed a draft white paper appendix on penalized regression for a 30-day public comment period ending Sept. 11.

12. Heard activity and research reports from the ASB, the Actuarial Board for Counseling and Discipline (ABCD), the American Academy of Actuaries (Academy), the CAS, and the SOA.

*2024 Summer National Meeting*
*Chicago, Illinois*

**SURPLUS LINES (C) TASK FORCE**
Tuesday, August 13, 2024
11:45 a.m. – 12:45 p.m.

**Meeting Summary Report**

The Surplus Lines (C) Task Force met Aug. 13, 2024. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Adopted the report of the Surplus Lines (C) Working Group, which met June 25 and March 28 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings. The Working Group also met June 28 and April 30. During these meetings, the Working Group took the following action:
   A. Approved seven insurers for admittance to the April 1 and July 1 editions of the NAIC *Quarterly Listing of Alien Insurers* (Quarterly Listing).
   B. Discussed amendments to the *NAIC International Insurers Department Plan of Operation* that primarily clarifies the scope of analysis completed on insurers applying or admitted to the Quarterly Listing.
   C. Adopted amendments to the *NAIC International Insurers Department Plan of Operation.*

3. Exposed its draft surplus lines service of process form, which includes new language regarding the location of a lawsuit as defined within the *Nonadmitted Insurance Model Act* (#870). The draft form was exposed for a 30-day public comment period ending September 13.

4. Heard details regarding adjustments to exempt commercial purchaser minimum qualifications, which are required to be amended every five years.

5. Adopted its 2025 proposed charges, which remain unchanged from its 2024 charges.

6. Heard a presentation from the National Association of Public Insurance Adjusters (NAPIA) on public adjusters in the surplus lines market. The presentation primarily covered the following:
   A. The role and need for public adjusters.
   B. Discussion on recent anti-public adjuster endorsements.
   C. Potential solutions to the problems.

*2024 Summer National Meeting*
*Chicago, Illinois*

**TITLE INSURANCE (C) TASK FORCE**
Wednesday, August 14, 2024
3:30 – 5:00 p.m.

**Meeting Summary Report**

The Title Insurance (C) Task Force met Aug. 14, 2024. During this meeting, the Task Force:

1. Adopted its Spring National Meeting minutes.

2. Received an update on the *Survey of State Insurance Laws Regarding Title Data and Title Matters.* The results from the jurisdiction filings are being compiled to produce the updated report. The final report is anticipated to be considered for adoption at the Fall National Meeting.

3. Heard an update from NAIC Government Affairs on recent title-related federal activities that have garnered both support and concerns among stakeholders. As part of the current administration's housing affordability initiative, federal housing regulators have instituted affordability policies and pilots, including eliminating title insurance fees for certain federally backed mortgages and allowing attorney opinion letters (AOLs) to replace title insurance in most states.

4. Received an update from the American Academy of Actuaries (Academy) on its soon-to-be-initiated title-related research.

5. Heard a presentation from CertifID on its *2024 State of Wire Fraud Report* and the *Wire Fraud Liability: Insights from 2020–2024 Court Battles* report. The title industry is experiencing increased wire fraud from advances in artificial intelligence (AI), a fast-paced real estate market, and a prevalence of consumers communicating and transacting via mobile phones.

 

*Virtual Meeting*

**WORKERS' COMPENSATION (C) TASK FORCE**
August 8, 2024

**Summary Report**

The Workers' Compensation (C) Task Force met Aug. 8, 2024. During this meeting, the Task Force:

1. Discussed workers' compensation issues in Louisiana that were examined during a recent panel presentation. During the panel, the following items were discussed: 1) comparison of the workers' compensation system in Arkansas and Louisiana; 2) medical costs; and 3) dispute resolution. Louisiana is interested in comparing its workers' compensation system to Arkansas' workers' compensation system to find ways to make reforms to lower premium rates.

2. Heard a presentation from the National Council on Compensation Insurance (NCCI) on the state of the workers' compensation market. Combined ratios have been under 90% for the past seven years, and workers' compensation premiums have returned to pre-pandemic levels. Claims frequency has dropped and claim severity has remained moderate. This is important because lower frequency and severity are conducive to continued loss cost decreases.

3. Heard another presentation from NCCI about the relationship between weather conditions and work injuries. NCCI conducted a study about work-related injuries during times of extreme heat and extreme cold, as well as the impact of precipitation. The results of this study indicated that injuries on hot days increase in conjunction with the temperature increase.

 

*2024 Summer National Meeting*
*Chicago, Illinois*

**JOINT MEETING OF THE CATASTROPHE INSURANCE (C) WORKING GROUP**
**AND THE NAIC/FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) (C) ADVISORY GROUP**
Tuesday, August 13, 2024
10:00 – 11:30 a.m.

**Meeting Summary Report**

The Catastrophe Insurance (C) Working Group met Aug. 13, 2024, in joint session with the NAIC/FEMA (C) Advisory Group. During this meeting, the Working Group and Task Force:

1. Adopted its Spring National Meeting minutes.

2. Heard an update on federal legislation. The update included: 1) FEMA activity; 2) the various congressional hearings and public press releases around the high cost of property insurance related to natural catastrophes; and 3) state insurance regulators' support of several congressional bills supporting mitigation and resilience funding, tax incentives, and research for state mitigation and resilience programs to address challenges arising from natural disasters.

3. Heard an update on the Catastrophe Modeling Primer from the drafting group. The drafting group is close to completion and is reviewing the document. It anticipates exposing the document prior to the Fall National meeting so it can be considered for adoption at the meeting.

4. Heard an update from FEMA on the changes to the Community Rating System (CRS). The CRS is an incentive program that recognizes and rewards community floodplain management practices that exceed minimum requirements of the National Flood Insurance Program (NFIP). Improvements in FEMA's capability to analyze, assess, and communicate flood risk, as well as overwhelming feedback from external stakeholders, influenced FEMA's consideration of bold programmatic changes to the CRS. The CRS redesign process started in fiscal year 2023 and will be implemented sometime in 2026. FEMA will be hosting events, public meetings, and webinars to collect feedback.

5. Heard a presentation on FEMA's Direct to Customer (D2C) launch and timeline and FEMA's Agent Registry. The D2C implementation has two phases: 1) Phase One will provide quotes to customers and sales leads to insurance agencies; and 2) Phase Two will provide online sales to customers, as well as servicing by the NFIP directly. The agency locator will allow agencies to register to appear in the quote table and is a voluntary program. The data will undergo a validation process, and agencies displayed will be based on geography. FEMA has conducted user interviews and consumer testing, and the Agent Registry will go through internal testing.

6. Received an update on the Center for Excellence (COE) resiliency activities. The Mitigation and Resilience Assistance Resilience Hub provides information on mitigation program coordination and

development, peer-to-peer learning opportunities, consumer education and outreach, resilience funding, and data and analysis.

7. Heard a presentation from the American Property Casualty Insurance Association (APCIA) about mitigation discounts. Increased property loss is being caused by weather, a rise in exposure values and replacement costs, the natural variability that comes from selecting any five-year sample of natural catastrophe sample of natural catastrophe experience, the effects of the changing climate on different atmospheric perils, and the impacts of man-made loss drivers. Insurance availability pressures are caused by the demand for property insurance and increased costs, while capital is decreasing. Insurers are leading efforts to make communities more resilient and mitigate risks. Consumer empowerment includes mitigation, catastrophe deductibles, and catastrophe savings accounts. There are financial incentives for resilience, including grants, low-interest loans, waiving and reducing fees, tax credits, and insurance incentives.

Draft: 6/17/2024

Cannabis Insurance (C) Working Group
Virtual Meeting
May 8, 2024

The Cannabis Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met May 8, 2024. The following Working Group members participated: Tyler McKinney, Chair (CA); TK Keen, Vice Chair (OR); Austin Childs and Nathan Hall (AK); Catherine Reaves (DE); C.J. Metcalf (IL); Deborah Ivory (MS); Randall Currier (NJ); Elouisa Macias (NM); Gennady Stolyarov (NV); Sebastian Conforto (PA); Carlos Vallés (PR); Beth Vollucci (RI); Karla Nuissl (VT); and Michael Walker (WA).

1. Adopted its Dec. 19, 2023, Minutes

Currier proposed the phrase "for a jewelry store" be removed from the first paragraph on the fourth page of the Working Group's Dec. 19, 2023, minutes.

Currier made a motion, seconded by Walker, to adopt the Working Group's Dec. 19, 2023, minutes (Attachment TBD) with the aforementioned revision. The motion passed unanimously.

2. Heard an Update on Cannabis-Related Legislative Activities

Alex Swindle (NAIC) stated that there continues to be a lot of activity on cannabis issues in the U.S. Congress (Congress). Members of Congress from states where cannabis is legal have historically supported giving the cannabis industry access to insurance and banking services. Most financial services continue to be reluctant to do business with cannabis-related businesses due to the federal classification of marijuana as a Schedule I controlled substance under the Controlled Substances Act (CSA). This leaves many legal businesses unable to access insurance bank accounts or lines of credit. The result is that most cannabis businesses operate on a cash basis, which is very risky. A few bills have been introduced over the years to address this. However, the Secure and Fair Enforcement Regulation (SAFER) Banking Act has had the most momentum. This bill provides protection for federally regulated financial institutions that serve state-sanctioned marijuana businesses. Under the bill, a federal banking regulator may not penalize a depository institution for providing banking services to a state-sanctioned marijuana business. The bill also prohibits a federal banking regulator from requesting or requiring a depository institution to terminate a deposit account unless: 1) there is a valid reason, such as the regulator has cause to believe that the depository institution is engaging in an unsafe or unsound practice; and 2) reputational risk is not the dispositive factor. Additionally, proceeds from a transaction conducted by a state-sanctioned marijuana business are no longer considered proceeds from unlawful activity. Furthermore, a financial institution, insurer, or federal agency may not be held liable or subject to asset forfeiture under federal law for providing a loan, mortgage, or other financial service to a state-sanctioned marijuana business.

The SAFER Banking Act would improve the transparency and accountability of these businesses by enabling their financial information to be tracked and reported. The text of the bill also provides protections for insurers engaging in the business of insurance with a state-sanctioned marijuana business or service provider of the relevant legal jurisdiction against being held liable pursuant to any federal law or regulation solely for providing a financial service or for further investing any income derived from such a financial service. The language of the SAFER Banking Act also expands these protections to insurers that "otherwise engage with a person in a transaction permissible pursuant to a law (including regulations)," Sec. 5(c), language that is not in the U.S. House of Representatives' (House's) Secure and Fair Enforcement (SAFE) Banking Act of 2023. The bill passed the U.S. Senate Committee on Banking, Housing, and Urban Affairs (Senate Banking Committee) with bipartisan support.

It has 35 cosponsors from both sides of the aisle but could still face some challenges in reaching a consensus with all members from both parties. House leadership has made some efforts to bundle the bill with other legislation.

In 2022, President Biden ordered the U.S. Department of Health and Human Services (HHS) to study the effect of moving marijuana from a Schedule I substance to a Schedule III substance under the CSA. In May 2024, the U.S. Department of Justice (DOJ) formally moved to reclassify marijuana by sending a proposed rule to the federal register recognizing the medical uses of cannabis and acknowledging that it has less potential for abuse. The plan would not legalize marijuana for recreational use. The Drug Enforcement Agency (DEA) will next take public comment on the proposal in a potentially lengthy process. It would then need to be reviewed by an administrative judge, and the final rule would be published. If approved, the rule would move marijuana to a Schedule III substance alongside ketamine and some anabolic steroids. Attorney General Merrick Garland's approval of the plan signals that the Biden Administration is prioritizing the reschedule. There are some efforts to entirely remove cannabis from scheduling through congressional actions. However, these seem unlikely to gain support.

McKinney asked if the timeframe for the rule is known. Swindle stated that the timing is unclear and potential approval for the rule will be a long road.

3. Heard a Presentation from BDSA on Trends and Emerging Issues in the Cannabis Space

Roy Bingham (BDSA) stated that BDSA uses point-of-sale and transactional information data from almost 2,000 regulated dispensaries nationwide. It cleanses and catalogs the data because there are no standardized skew bar codes in the cannabis industry yet. From this data, BDSA is able to identify very accurate industry trends and projections of categories and subcategories of products. It also conducts a semiannual survey on consumer behavior trends and consumption patterns. Before this, the cannabis industry did not have the type of data commonly found in other industries. From this data, BDSA develops market forecasting state-by-state.

Due to federal prohibition, BDSA also uses publicly available information to identify locations and provide information to its clients, who are the leading cannabis companies. It works with 28 of the top 30 cannabis companies. There are complexities around the industry with hemp-derived intoxicating cannabinoid products. Many of these products are similar to what is available in dispensaries and are popular in states that do not have licensed and regulated adult-use or medical cannabis. Cannabis prices have been stabilizing and reflect the volatile nature of local supply and demand. When a new market is launched, you typically have a period of short supply because the growers do not have enough supply yet. Then, there is a steady price decline. Prices have declined substantially in the most mature markets, such as California and Colorado. The price decline also reflects competition from illicit markets that operate side-by-side. Cannabis products have become sophisticated. Only about a quarter of sales are from cannabis flower, and much of it is now branded. Packaged vaporizer products and edibles are also branded like any other consumer packaged goods. Investors have been eagerly awaiting federal reform to enter the market. Many anticipate the rescheduling will happen by November. Federal reform would also allow institutions to touch the plant and get started on researching health benefits.

New market expansion is what has been driving the industry. Cannabis is fully legal in most of the states in the western and northeast portions of the U.S. 36 states have legalized it for medical use. The majority of U.S. adults are positive about cannabis consumption. Nearly half of adults in the U.S. have access to recreational cannabis. About half of adults have consumed it in the past six months. When a state first legalizes cannabis, consumption is usually around 30% of the population and then steadily rises. Detailed surveys have shown that the majority of people consume on at least a weekly basis. Consumption occurs on a broad demographic profile. Many recreational users consume cannabis products to treat issues such as pain, anxiety, or trouble sleeping. They no longer have to register for a medical card if they are in a recreational-use state. For this reason, medical-use cannabis is declining and is anticipated to continue doing so.

Globally, the cannabis market is anticipated to grow 10% per year and reach $58 billion globally by 2028. The U.S. market is anticipated to grow 10% to $32 billion in 2024, due largely to new recreational markets like New York and New Jersey. Additionally, strong growth is anticipated in Michigan. Florida and Ohio are expected to become recreational-use states. Growth in mature markets, which tend to be in the West, has been slow due to price reductions. At the same time, the Northeast and Midwest markets are growing rapidly. Growth in California has been negatively impacted by its massive illicit market. It is difficult for consumers to differentiate between a regulated and non-regulated location. Legal states bordering non-legal states are benefiting from consumers crossing state lines to purchase cannabis.

By volume, mature recreational-use markets still had the highest sales in 2023. California led with over $5 billion in sales, and Michigan was close behind with over $3 billion. However, emerging markets are close behind the recreational-use giants. Florida brought in $2.5 billion in medical sales alone, roughly a 16% increase over 2022. Illinois had just under $2 billion in sales.

Price compression has been a big story over the past two years. Although it has affected all legal markets, emerging markets are still holding much higher average retail prices than more mature ones. New Jersey and New York hold the highest prices. Prices are expected to hold more stable in emerging markets amid tight market conditions (such as limited cultivation capacity and restricted licensing). It is worth noting, however, that New Jersey has massively expanded the number of licensed businesses, which will likely lead to price decreases once many of these new businesses get online.

Discounting is widespread, with the five largest categories (flower, pre-rolled, vape, edible, and extracts) all having sold prices about 30% lower than the list price. Multistate brands are the majority of sales in major markets. While some mature markets see a strong presence of "home-grown" brands, Oregon was the lone state to have more than 50% of sales come from single-state brands.

4. Heard a Presentation from Jencap on Insurance Availability, Coverage Trends, and New Risks in the Cannabis Space

Erich Schutz (Jencap Specialty Insurance Services—Jencap) stated that the entrance of some new reinsurers into the market has increased the availability and affordability of named storm and wind/hail coverage over the last two years. Directors and Officers (D&O) and cyber coverage are becoming more affordable with better coverage. However, bonds related to banking or loans, such as default-type bonds, are unavailable. Additionally, outdoor crop coverage remains unavailable outside of parametric coverage, with an extremely high minimum premium coverage. Parametric crop coverage is usually only suitable for unique placements for savvy operations with significant outdoor exposures. On the positive side, parametric crop coverage is now available in more states than just Florida. Reinsurance capacity has increased. Additionally, due to losses from equipment breakdown coverages, insurers are capping equipment breakdown to $1 million or excluding it. Multi-line excess insurance limit products for cannabis-related businesses are not as available as in other markets. Some combinations, such as excess coverage for workers' compensation and auto, can be found together. However, there is no one robust product that provides all excess limit coverage needs.

Coverage take-up is greatest for compulsory coverages, such as workers' compensation, general liability, and property. In states such as California, where product liability coverage is not necessarily required, cannabis-related businesses are more likely to just secure general liability coverage. Property coverage is the most likely coverage to be self-insured. Of the coverages most companies should have, cyber is the least requested coverage. Life insurance is still very difficult for cannabis-related businesses to find. Auto insurance is still problematic and expensive, especially in states with no risk pool and fixed rates, such as Massachusetts and Michigan. There is much room for state insurance regulators to encourage surplus lines carriers to enter markets where admitted auto coverage is not compulsory. This is especially true in the hemp space since hemp is a federally legal product and can be transported across state lines and internationally. Brokers also have difficulty finding international coverage, whether it is a domestic policy with a worldwide extension that will defend an insured in a foreign country or protection against a lawsuit that is alleged outside the U.S. and tried in the U.S.

Key person coverage has recently become available in the cannabis space. Brokers are seeing increased requests for personal cyber, kidnap and ransom, and travel coverages from high-net-worth cannabis professionals. Cannabis-focused specialty solution programs with language specific to cannabis are also becoming available. Coverage for product contamination is also emerging in the cannabis space. There are a number of coverages available on a minor package basis in the admitted market, including general liability, auto, and property. Admitted general liability and product liability coverages are available in 10–15 states. Property is limited. Mature markets, such as California, Colorado, Illinois, Massachusetts, Michigan, Oregon, and Washington, are most likely to be able to support an admitted market. The way an admitted market is implemented and regulated matters. California is a good example of state insurance regulators reaching out to surplus lines carriers and working to transition them to admitted carriers. Michigan is a good example of where the carrier led to charge to provide the admitted coverage mandated by the state's law. However, the Michigan carrier's paper was downgraded last year, resulting in a vacuum in the space and forcing a lot of insurers to rewrite their policies and face issues with their banks for not meeting loan conditions.

Jencap released its *Preparing for the Future of Cannabis Insurance* white paper in 2023, in which it examined four different scenarios of federal cannabis reform. Rescheduling to Schedule III would allow cannabis-related businesses to have access to traditional banking sources. It would also lower their tax rate by about 30–50% by resolving issues with Section 280E of the Internal Revenue Code (IRC). Section 280E currently prevents businesses selling illegal drugs, such as cannabis, from deducting common business expenses such as rent, utilities, and payroll. However, it would also mean that cannabis would be regulated like a pharmaceutical drug; thus, medical cannabis dispensaries would have to compete with pharmacy stores like CVS. This would likely lead to most medical cannabis dispensaries going out of business. Consumers would likely want to shop at pharmacy stores where they can get their medical cannabis and other prescription medications. Unlike CVS stores, medical dispensaries are also not equipped to deal with DEA regulations and lack the infrastructure and knowledge to ship over state lines. Additionally, medical cannabis manufacturers would likely struggle as they lack the knowledge and finances to go through a now-required Food and Drug Administration (FDA) trial.

Pharmacies should not be permitted to sell medical cannabis before cannabis is federally rescheduled. Georgia allowed private pharmacies in its state to dispense low-potency cannabis. The private pharmacies immediately lost their insurance because their insurance carriers did not allow them to sell federally illegal marijuana. As mentioned earlier, Michigan's mandate that cannabis businesses carry product liability insurance coverage by licensed and admitted carriers is another troubled regulation, focusing on the classification of coverage as admitted or nonadmitted rather than the quality of the coverage and financial strength of the insurer. In March 2024, AM Best downgraded the Financial Strength Rating of the primary admitted cannabis insurer to C (Weak) from B+ (Good). This resulted in a panic among cannabis businesses and a flurry of refiled forms to remain compliant. State insurance regulators could help brokers and underwriters in the insurance industry by assisting with more communication and collaboration to prevent these types of problematic circumstances. The industry needs its insurance and cannabis regulators to be in lockstep with each other. This includes addressing the issues in Georgia, Michigan, and other states where there are overly restrictive regulations for cannabis that are impacting insurance availability and pricing.

5. <u>Heard a Presentation on the Work of the IIHS and HLDI on the Legalization of Marijuana for Recreational Use</u>

Matt Moore (Highway Loss Data Institute—HLDI) stated that he is representing the Insurance Institute for Highway Safety (IIHS) and HLDI, which U.S. auto insurers fully fund. Member companies provide them with their coverage and claims data on a monthly basis for both automobiles and motorcycles insured for private use. The data is then scrubbed clean and homogenized in order to conduct studies that can inform insurance customers and/or contribute to the national dialogue around highway safety. At the National Advanced Driving Simulator at the University of Iowa, researchers dosed study participants with both alcohol and marijuana and observed their driving behavior. Those dosed only with alcohol engaged in driving behaviors that are likely to increase crash risk, particularly speeding. By contrast, those only dosed with marijuana exhibited no change in several at-risk driving behaviors, including speeding. They also had greater following distance and drove below the speed limit, which are behaviors associated with reduced crash risk.

The HLDI published two studies analyzing changes in collision claim frequencies in Colorado, Oregon, and Washington, relative to nearby states following the inception of legal recreational use. The results indicated that for all three states, the legalization of retail marijuana sales was correlated with increases in collision claim frequency. However, those increases attenuate over time. The most current study expanded on the 2018 study by including collision loss data through 2019 and adding Nevada as a study state. The study found the legalization of retail marijuana sales is associated with increases in collision claim frequencies in Colorado, Nevada, and Washington but a decrease in Oregon. The collision claim frequency in Colorado was 7.2% higher than in Nebraska, Utah, and Wyoming after legalization. Similarly, claim frequency in Washington state increased by 5.6% compared with Idaho and Montana. For Nevada, claim frequency was 5.4% higher than in Idaho and Utah. However, in Oregon, collision claim frequency decreased by 3.5% compared with Idaho and Montana.

A single analysis that combined these four states was also conducted. In this analysis, the study states were compared with other western states whose monthly collision claim frequencies were highly correlated with the frequencies for each study state before legalization. Using this approach, the legalization of retail sales was associated with a 3.8% increase in collision claim frequency.

The IIHS conducted a similar set of analyses using police-reported crashes to examine differences between injury-producing crashes and fatal crashes. Similar to the results of the HLDI studies, there are some differences between states, and there are differences over time. It found that marijuana legalization was associated with a 5.9% increase in fatal crashes in the five study states.

Stolyarov asked how the percentage of fatal crash rates could exceed either the retail sales or the recreational use. Moore said the slide does not include individual study control states and each time period. He offered to email the full study to anyone who requested it (mmoore@hldi.org).

The HLDI and IIHS studies do not address the critical issue of finding the true relationship between the likelihood of crashing when dosed with marijuana. This is critical because impairment is not necessarily scientifically linked to marijuana use as it is to alcohol use. Results from a 1985 IIHS study that looked at drivers killed in crashes illustrate the complexity. The study found that those who tested positive for alcohol were deemed to be responsible for the crash 92% of the time. Those who tested positive for alcohol and marijuana were deemed to be responsible for the crash 95% of the time. Those who tested negative for both were found to be at fault 71% of the time. However, those who tested positive for just marijuana were only at fault 53% of the time.

A federally funded study published in 2015 examined the relationship between crash risk and marijuana and found a 28% increase in crash risk when no variables were controlled. After adjusting for demographic variables, the study found a 5% increase in crash risk, similar to increases found in the collision claim frequency data and the fatal crash data. However, after adjusting for demographic variables and alcohol use, there was no change in crash risk associated with marijuana use.

To further examine the relationship between marijuana and crash risk, the IIHS partnered with medical centers in California, Colorado, and Oregon. The partnership evaluated injured drivers who were in a motor vehicle crash (cases) and medical patients not in a motor vehicle crash (controls). The study results found that, among the crash survivors, the self-reported substance use in the cases group was much lower than among the control group. Additionally, actual tested consumption of these substances was higher than the self-reported use for both groups. However, the use of alcohol or alcohol and marijuana represented an outsized portion of the risk.

A critical problem in states legalizing marijuana for recreational use is there is no accepted, rapid test that law enforcement can use in the field to test for impairment that is on par with tests for alcohol impairment. This makes testing and/or enforcement of marijuana laws difficult. Alcohol is still responsible for about 30% of fatal crashes. The IIHS messaging around marijuana is that enforcing existing speed and driving-while-impaired laws is an effective way of addressing problems related to marijuana impairment.

Having no other business, the Cannabis Insurance (C) Working Group adjourned.

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2024_Summer/Cannabis/5-CannabisWG.docx

*Virtual Meeting*

**TRANSPARENCY AND READABILITY OF CONSUMER INFORMATION (C) WORKING GROUP**
Thursday, Aug. 8, 2024

**Summary Report**

The Transparency and Readability of Consumer Information (C) Working Group met Aug. 8, 2024. During this meeting, the Working Group:

1. Discussed proposed revisions to the premium increase transparency guidance. The guidance document is meant to be used as a tool for states wishing to implement a disclosure notice process for insurers to use to explain to policyholders why their premiums increased for personal auto, homeowners, and dwelling policies. The Working Group made substantial revisions to the guidance document based on comment letters it received during its previous exposure period that ended Feb. 1. The most substantial change was its decision to combine the capping and non-capping guidance documents into one guidance document that applies to both. Additional revisions focused on improved clarity and readability.

2. Exposed the revised guidance document for a xx-day public comment period ending Aug. 30, 2024. The Working Group anticipates that the guidance document will be considered for adoption at the Fall National Meeting.

 

# NAIC Property and Casualty Insurance (C) Committee

*State of the Homeowners Insurance Market*

Robert Gordon

Senior Vice President, Policy, Research & International

August 15, 2024

# Question: Is there an Insurability Crisis? Will Consumers Be Able to Purchase Insurance?

"Extreme weather patterns caused by climate change have led [insurers] to stop writing coverages in some regions… [and] say they will cut out damage caused by hurricanes, wind and hail… along coastlines and in wildfire country"
- *Washington Post*

# Property Insurance Markets Deteriorating

The Palm Beach Post

## Florida's property insurance is in crisis.

*Florida should end "Citizen's Insurance" as a company of last resort and establish competition for existing and new insurance companies coming into the state.*

**Scott Schneider** Palm Beach Post
Published 5:25 a.m. ET March 13, 2024 | **Updated 10:53 a.m. ET March 14, 2024**

They say, the more complex the problem, the simpler it

Florida's homeowner insurance crisis has become a nig
them out of the state. Home insurance premiums conti
competition in the market.

San Francisco Chronicle

OPINION // EDITORIALS

## California's insurance market is a ticking time bomb.

No one wants to have to pay more, but maintaining the status quo of the state's home insurance market in the face of climate change is even costlier.

By **Chronicle Editorial Board**

4WWL

## Southeast Louisiana has an insurance crisis

"It does take time for that to happen — which is why it's all the more important that we hit the regular
ast and hard with these legislative changes."

**Brandon W**

Published: 12
Updated: 1:1

BA

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Newsweek

## California's Insurance Crisis Is Spiraling Outof Control

Published Mar 01, 2024 at 8:11 AM EST

The ongoing home insurance crisis in California is about to deepen as yet another company has announced its withdrawal from the state over profitability concerns.

American National, a private insurer headquartered in Texas, has informed the California Department of Insurance that it will stop offering homeowner insurance policies by this fall and will begin sending nonrenewal notices to customers as early as August, *Insurance Business* reported.

CAL MATTERS

## California insurance market 'in chaos'

BY LEVI SUMAGAYSAY
MARCH 25, 2024 UPDATED MARCH 27, 2024

With more California homeowners just discovering their insurance policies are getting canceled — and hundreds of thousands of others stuck with a pricey option of last resort — state Insurance Commissioner Ricardo Lara's efforts to fix the home insurance market can't come quickly enough.

# Profitability: A.M. Best Downgrades Personal Lines Insurance (March 2024)

## Personal lines insurance outlook = Negative (*first ever*)

- Underwriting losses: 2022-2024(est.) = **-$40/48/21 billion**
- "underwriting profitability… over the near term appears highly unlikely"

## Auto insurance outlook = Negative

- Worst 3-year stretch of losses in recent memory
- Causes: Inflation, supply chain disruption, record driving, worse driving, technology costs, legal system abuse

## Homeowners insurance outlook = Negative

- 5 consecutive years of underwriting losses

# Profitability: S&P Global Ratings (July 2024)
# Steep Personal Lines/Commercial Auto Losses

## Homeowners insurance

- 2023 underwriting income = "**the worst of this century**"
- 2024 = 7.3% net underwriting loss (projected)

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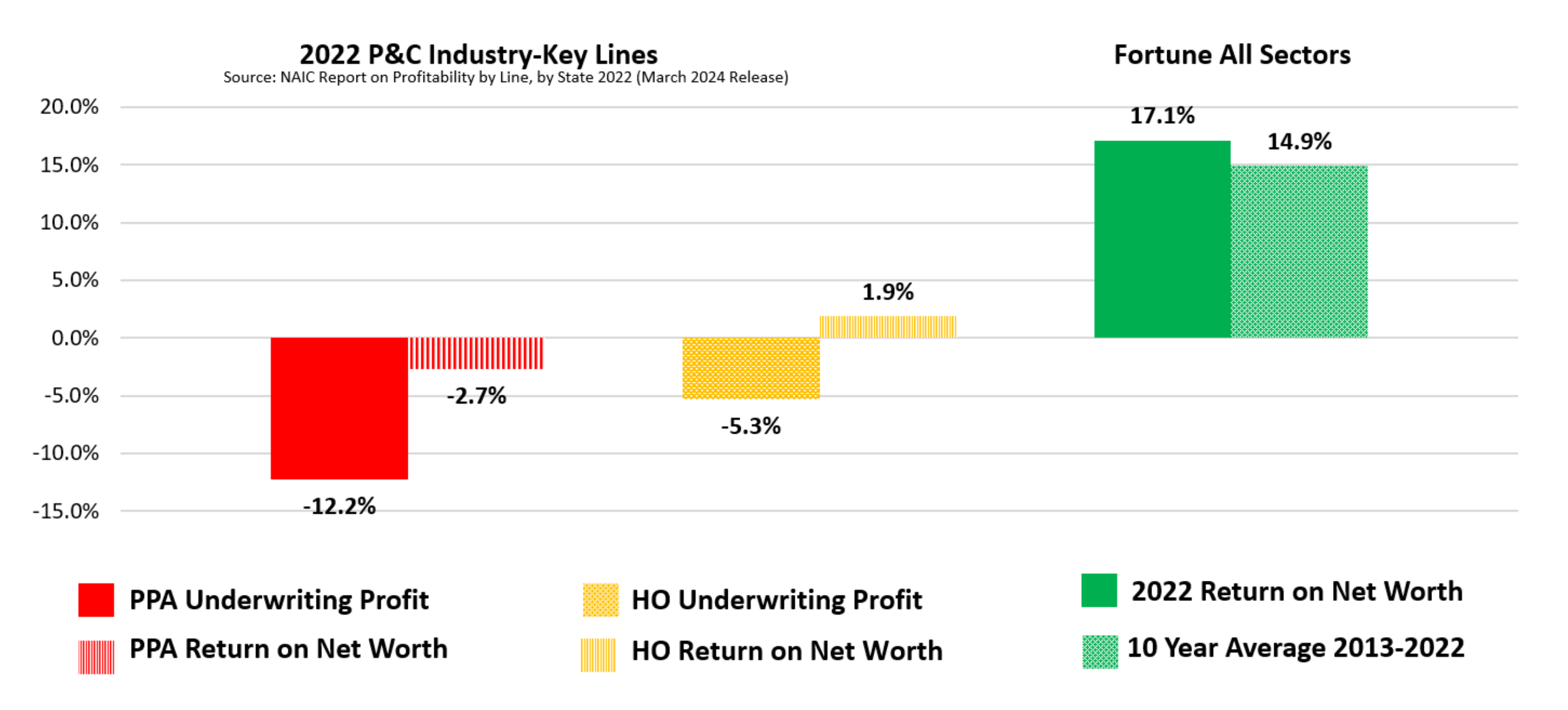
## Private auto insurance combined ratios

- 2022 = 12.2% net underwriting loss
- 2023 = 4.9% net underwriting loss
- 2024 = +1.6% net underwriting gain*

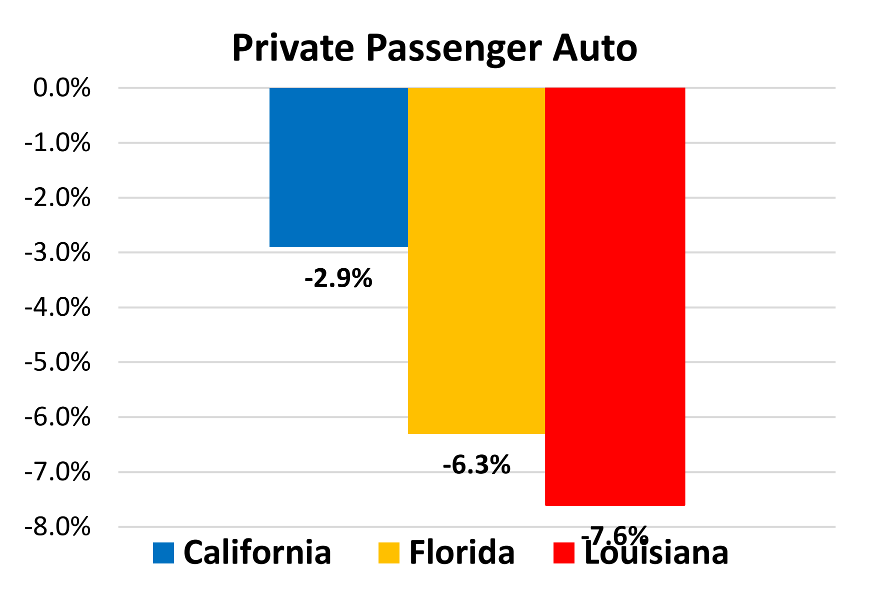
*Insurance Information Institute/Milliman forecast for 2024 auto = 1.4% loss

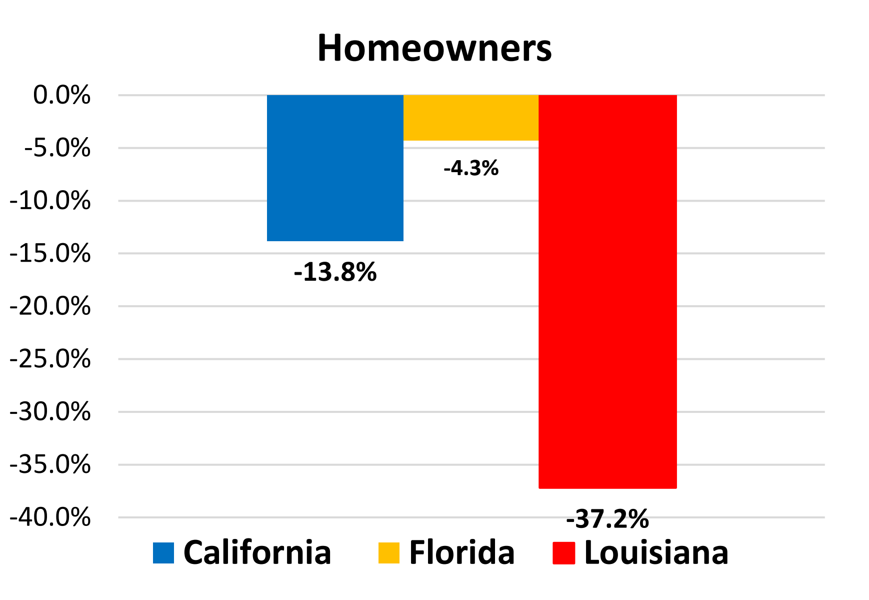
# NAIC "Profitability" Report for 2022: Personal Lines vs Fortune (All Business Sectors)



# NAIC Report – State Market Deterioration

## Ten-Year Average Underwriting Profit (2013-2022)



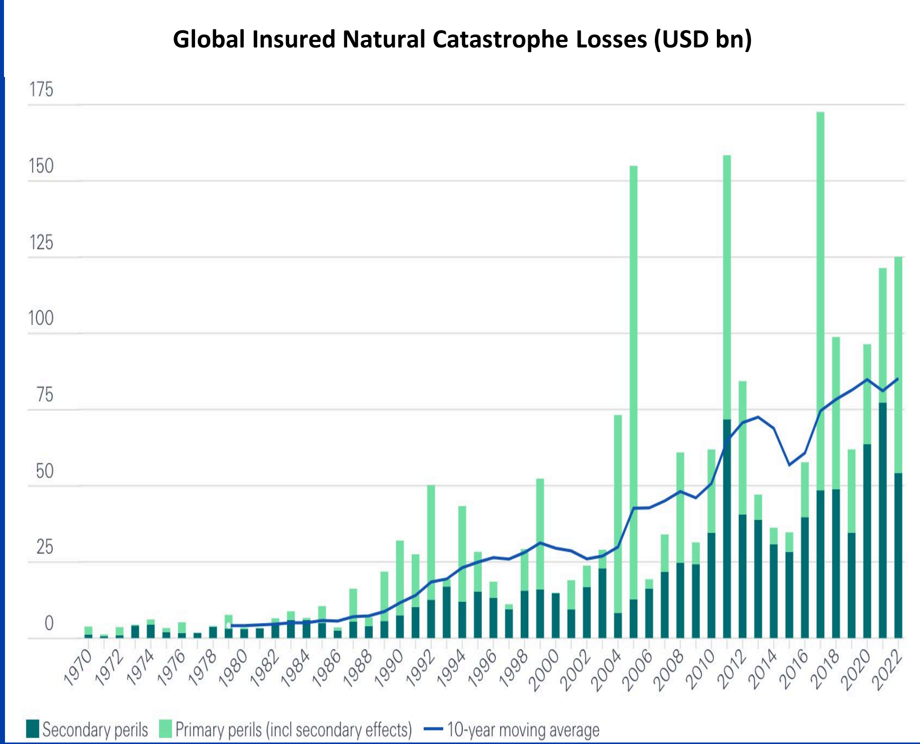
# What is Causing Increased HO Losses

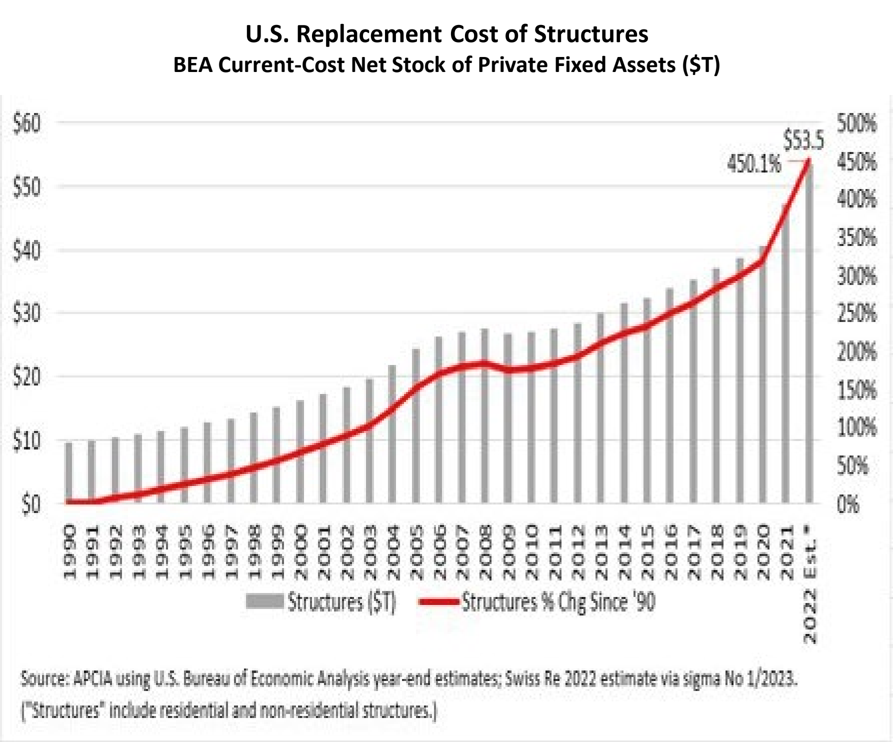
*It's not just the weather*

Verisk: The factors causing a doubling of average annual natural catastrophe losses over the last decade are (in order of importance):

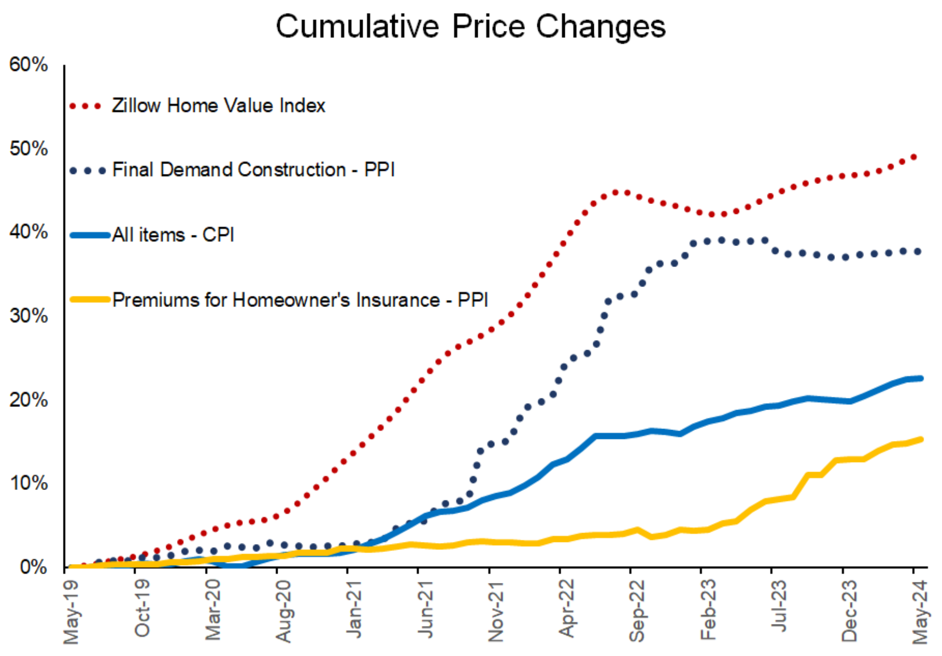
1. **A rise in exposure values and replacement costs**, represented both by continued construction in high-hazard areas and by high levels of inflation that are driving up repair and rebuild costs
2. The natural variability that comes from selecting any five-year sample of natural catastrophe experience
3. The effects of **climate change** on different atmospheric perils
4. The impacts of man-made loss drivers, such as **social inflation** and legal and **regulatory factors**

# Increasing Cat Losses / Rebuilding Costs

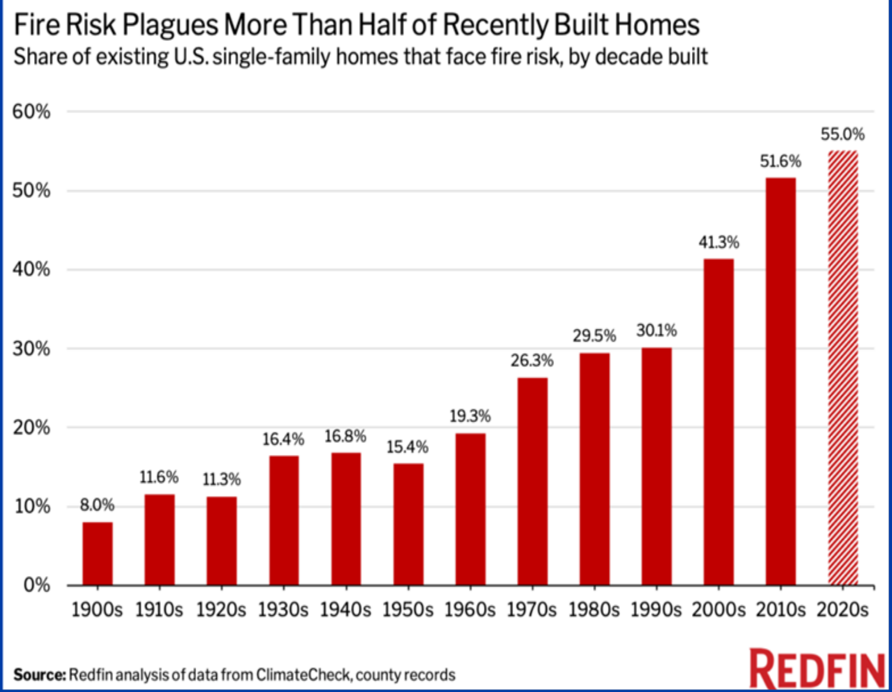


# Increasing Cost Inflation & Climate Risk



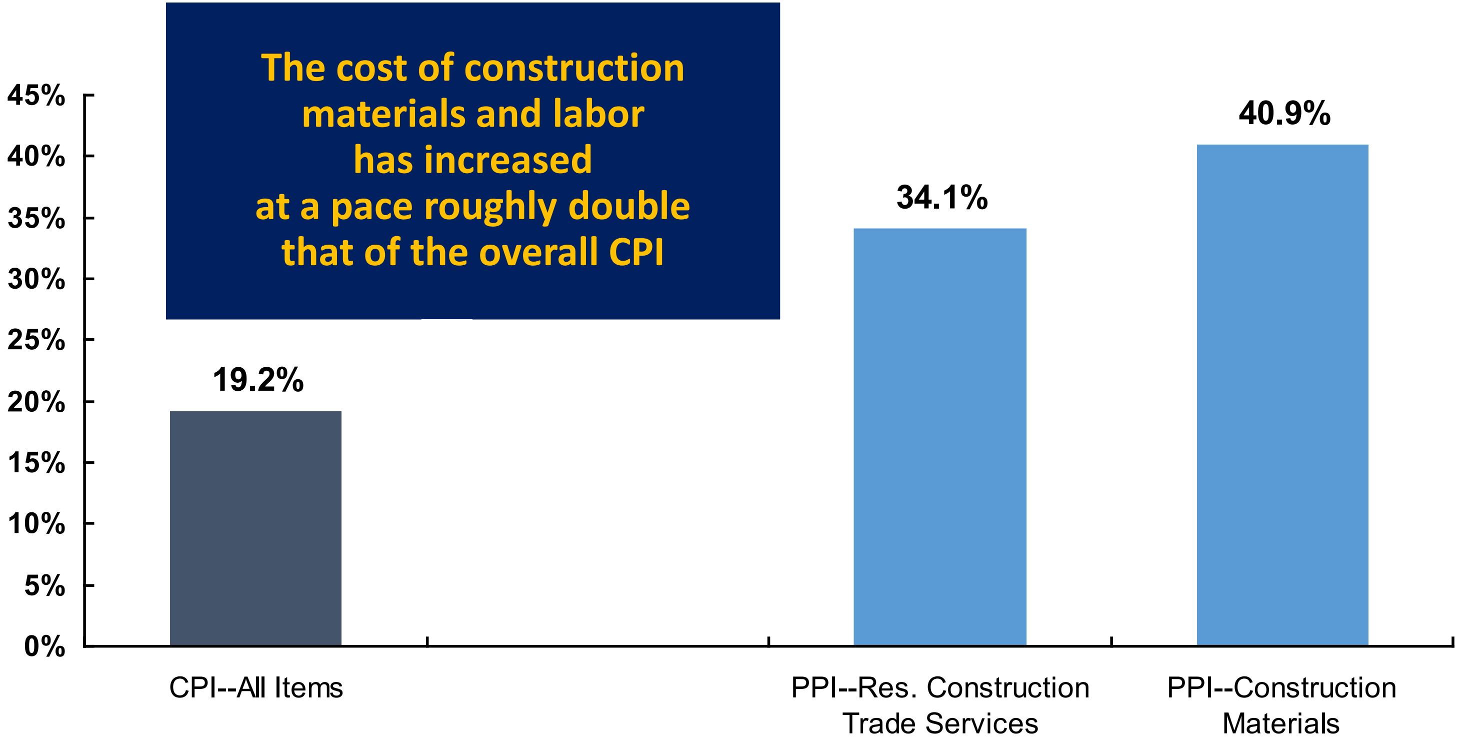

Source: Bureau of Labor Statistics




**Source:** Redfin analysis of data from ClimateCheck, county records

American Property Casualty Insurance Association℠

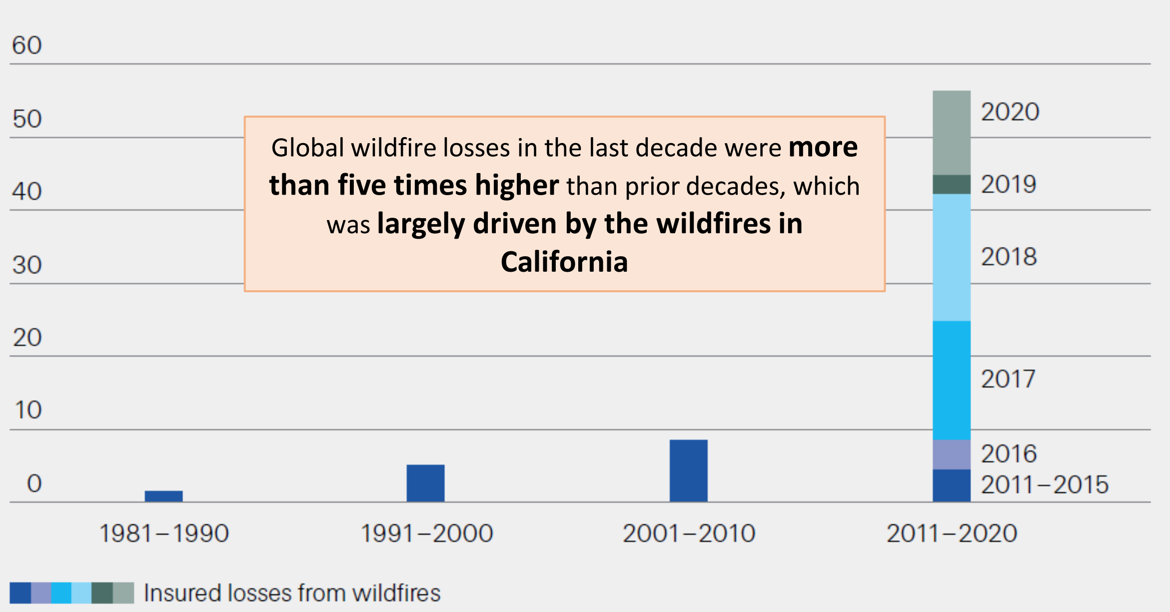
# CPI vs Cost of Construction Labor/Materials




Source: U.S. Bureau of Labor Statistics; Jan. 2020 – Dec. 2023.

# Secondary Perils: *Increasing Losses from Wildfires*

**Global insured losses from wildfires** (in USD billion, at 2020 prices)




Source: Swiss Re Institute

## Global Top 10 Costliest Wildland Fires

*(Insured Losses in $ millions, in 2023 dollars)*

1. **$12,286 - 2018 Camp***
2. **$10,932 - 2017 Tubbs***
3. **$5,206 - 2018 Woolsey***
4. **$3,852 - 1991 Tunnel**
5. **$3,748 - 2017 Atlas***
6. $3,644 - 2016 Horse Creek (Canada)
7. **$3,540 - 2020 Glass**
8. **$3,500 - 2023 Maui (Hawaii)***
9. **$3,019 - 2020 CZU Lightning Complex**
10. **$2,811 - 2017 Thomas***

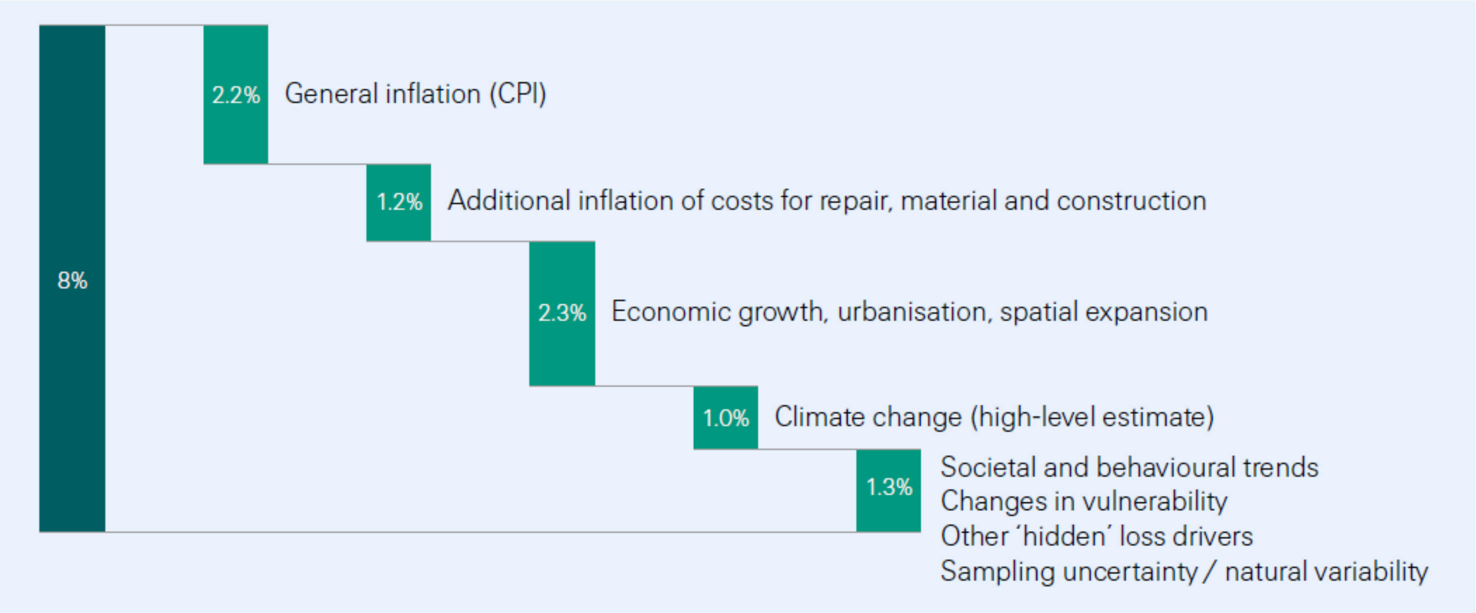
**Sources, Aon, Triple-I, RMIIA**

***Bold*** *emphasis indicates U.S. wildfires*
** Indicates utility-involved ignition*

# Secondary Perils: *Annual Increase in Convective Storm Losses*

**Total** **Individual drivers →**

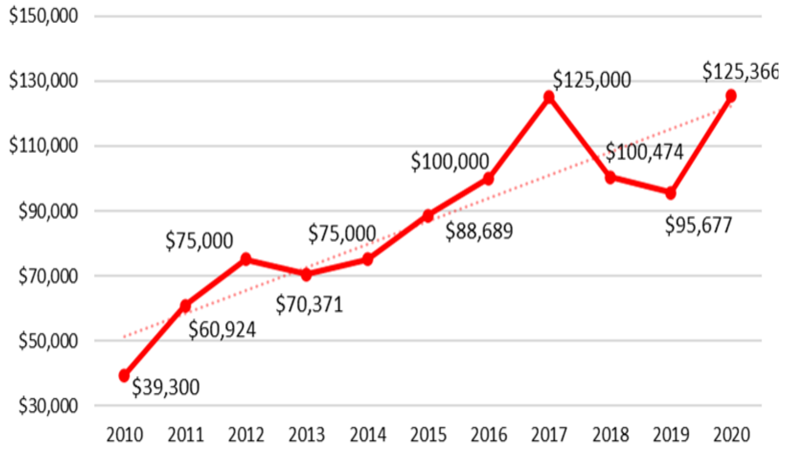
**U.S. Insured Losses 2008 – 2023**




Source: Swiss Re, "Natural catastrophes in 2023: gearing up for today's and tomorrow's weather risks", p. 15-16 (2024).

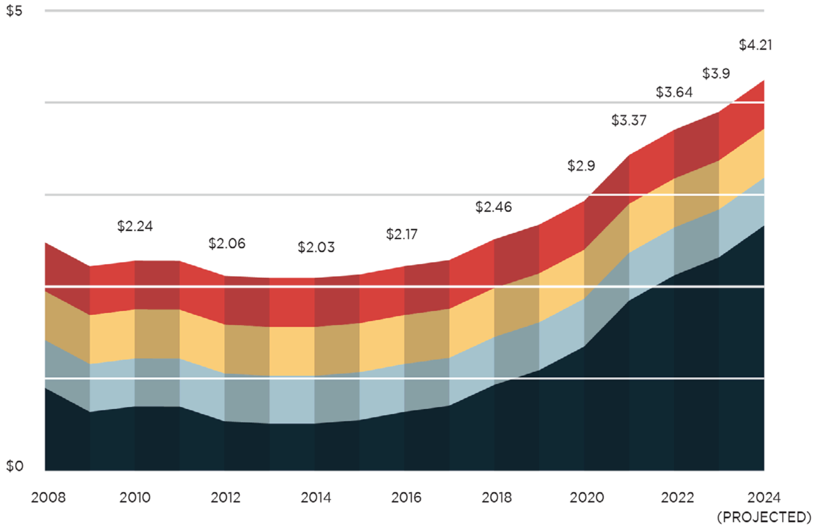
# Legal System Abuse Costs Are Increasing

## Median Personal Injury Judgement

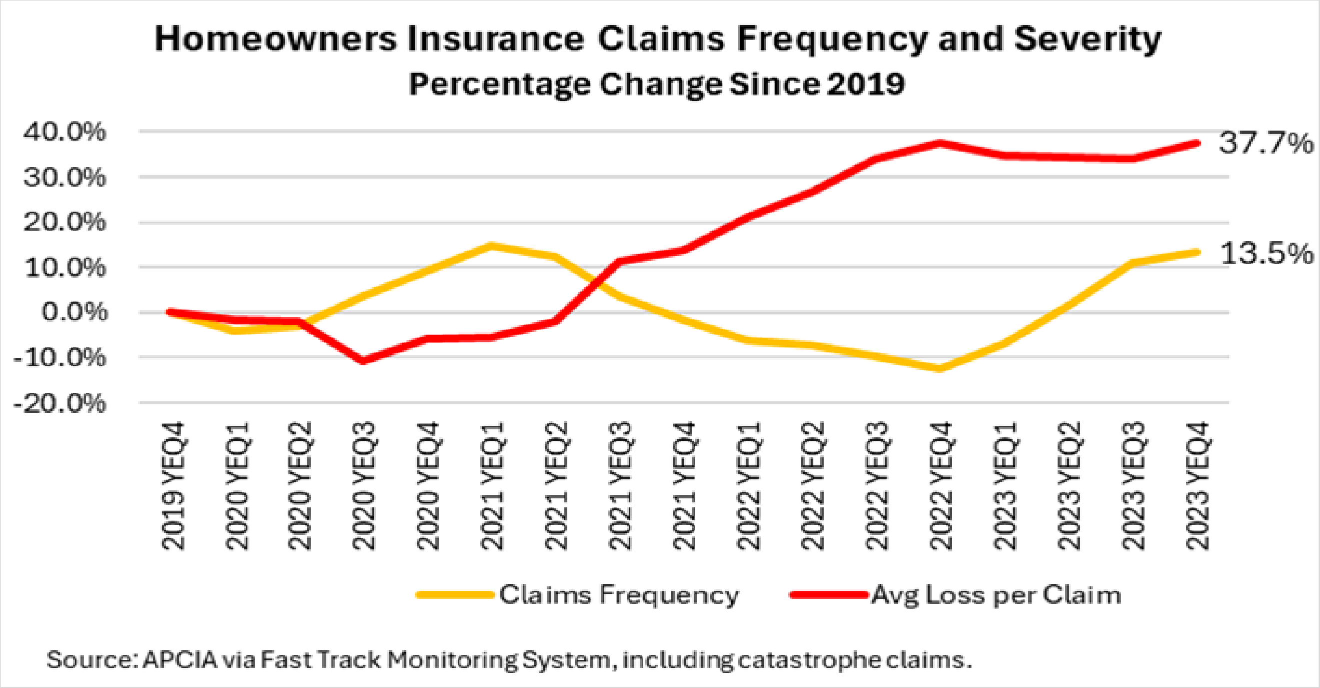



Source: *Current Award Trends in Personal Injury* and Insurance Information Institute

## U.S. Corporate Legal Spending on Class Actions | $ BILLIONS



# HO Claims Frequency & Severity Rising



# Insurance Availability Pressures

***Property insurance demand and costs are increasing; capital is decreasing***

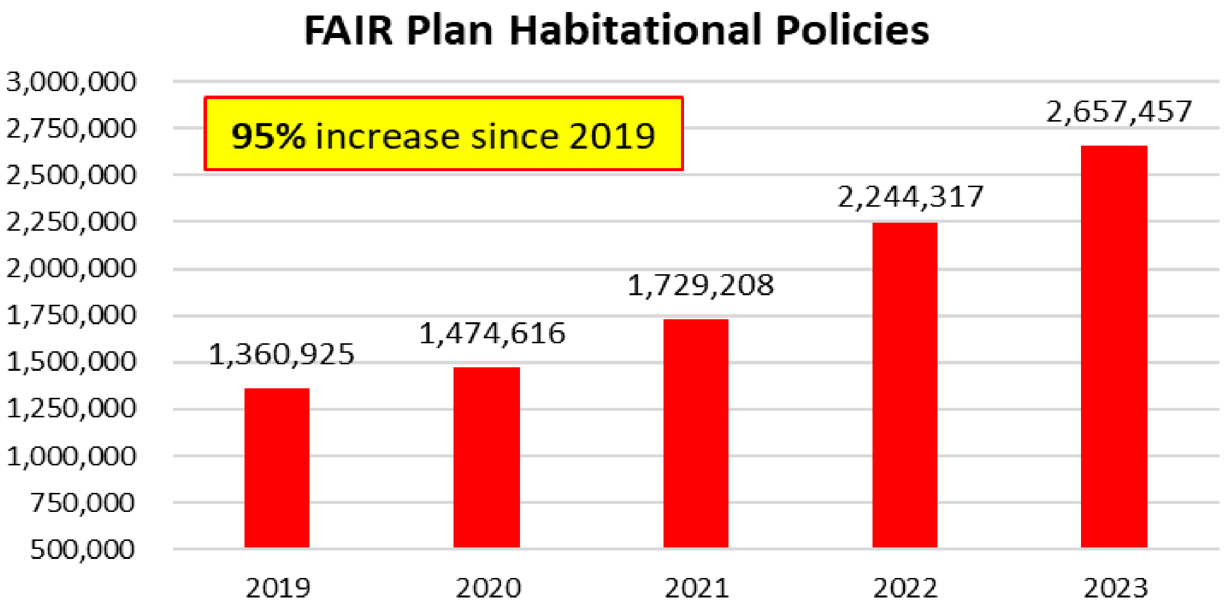
## DEMAND = INCREASING

- Higher Rebuilding Values
- Demographic growth/shifts
- Inflation
- Worsening weather
- Legal System Abuse

## SUPPLY = DECREASING

- Rate suppression/delays
  *(1 to 2-year lag time for rate filings, approvals, and rolling into new policies)*
- Premiums falling behind losses
- Less surplus
- Lack of profitability + volatility = Deters new investment capital

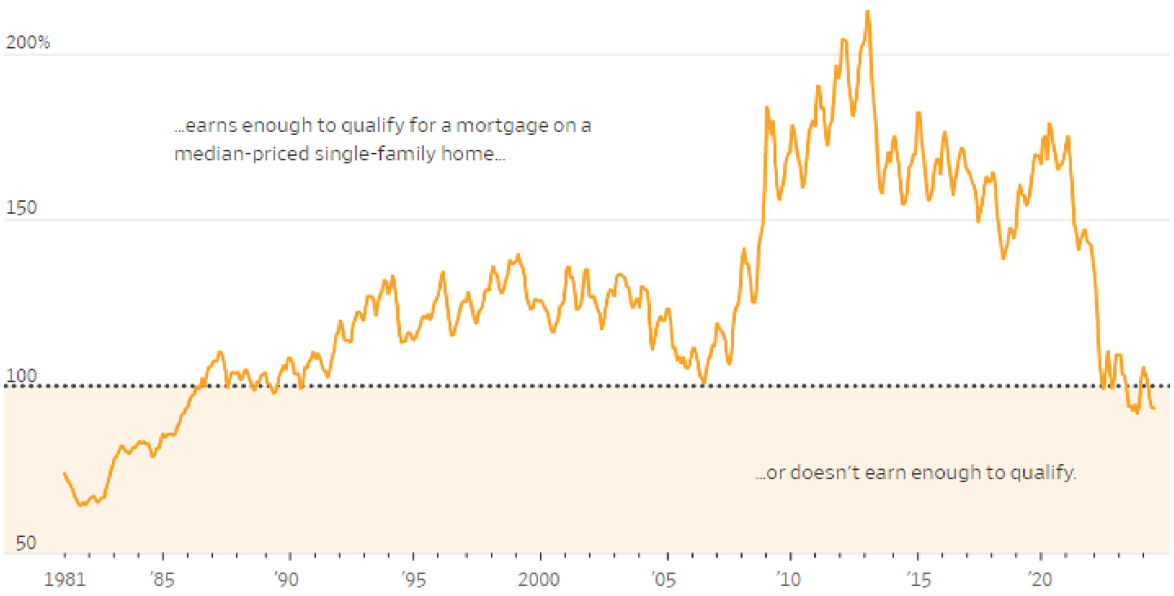
# Government Subsidized Competition




Source: APCIA via PIPSO Reports, June 2024.

# Homeownership is Getting Harder

# Housing Affordability Challenges

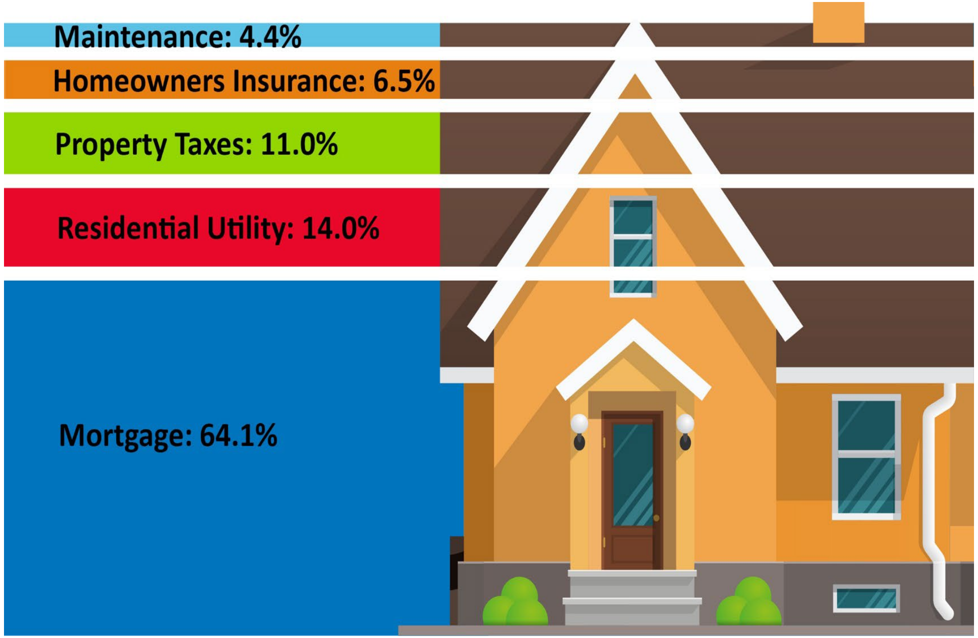



Note: Assuming a 20% down payment and 30-year fixed-rate mortgage. Data for June 2024 is preliminary.
Source: National Association of Realtors

Sources: Wall Street Journal August 2024

# Monthly Cost of Homeownership Breakdown

***HO Insurance is a Small % of the Overall Costs of Homeownership***




Sources: Experian, Statista, ATTOM, Statista, Insurify, Bureau of Labor Statistics

# Multi-Family Housing Affordability Challenges

Multi-family housing is experiencing some unique challenges:

Aging condos (many built before modern building codes) and deferred maintenance are contributing to increasing risk, adversely impacting condo HOA insurance costs.

Higher interest rates and insurance pricing pressure across all liability lines (in addition to higher construction materials and labor costs) is adversely impacting costs for housing developers and builders of multifamily or low-income housing projects -- costs they may not be able to fully pass on to consumers, if subject to government rent control.

# Recent Trends in Homeowners Coverage and Product Design

## Actual Cash Value

- *Higher utilization of ACV for partial loss (e.g., damage to depreciable components, such as roof) to reduce moral hazard and encourage maintenance.*

## Deductibles

- *Percentage-based deductible amounts increasing as Coverage A limits updated to reflect recent inflation in reconstruction costs.*

## Individual Perils

- ***Wind**: varying policy language/definitions for wind, by carrier or state, may have different implications for exclusions or triggering catastrophe deductibles (e.g., hurricane/named storm, windstorm/derecho, tornado, etc.)*
- ***Fire**: Legislative or regulatory expansion of minimum coverage requirements for wildfire disasters, coupled with regulatory rate suppression and Standard Fire Policy laws constraining product design (e.g., catastrophe deductibles, exclusions, sub-limits) critical to managing growing catastrophic fire exposure (e.g., wildfire, smoke, etc.), is resulting in higher utilization of exclusions for 'fire' peril with Difference in Conditions policies offered for non-catastrophic perils.*
- ***Earth Movement**: In 2019, NFIP added language to 'mudflow' definition to exclude 'earth movement' (including mudslides). States also pressuring private insurers to cover mudslide losses under fire policy, if due to wildfire.*

# Solutions

# Counterproductive Responses

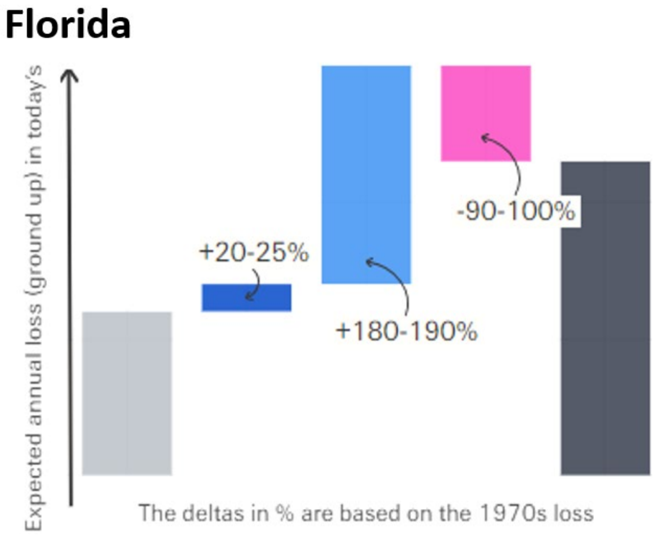
- **Government Rate Suppression**
  - Mitigation and resiliency funding helps consumers
  - Rate suppression contracts capital and deters new investment capital – creating long-term availability challenges that takes decades to recover from
  - Rate suppression encourages overbuilding & masks the costs of climate change
- **Government Catastrophe Backstops**
  - Reinsurers have ample disaster capital on the sidelines
  - Alternative capital markets can be similarly elastic
  - <u>THE PROBLEM IS RATE, NOT LONG-TERM CAPACITY</u> – Government subsidized backstops displace private markets and mask societally beneficial climate risk signals

# Insurability Solutions – Mitigation and Resiliency

Insurers are leading efforts to make communities more resilient and to mitigate risks

- Working with federal & state policymakers
- Supporting resiliency & mitigation programs, such as infrastructure improvements and wildfire solutions
- Advocating for stronger building codes & land use policies
- Funding science-based research into risk mitigation
- Advocating for financial support to increase resilience for vulnerable populations
- Investing/underwriting in climate and renewable technology

# Quantifying Cost Drivers
## (Hurricane Ian wind losses 1970s vs Today)




https://www.swissre.com/risk-knowledge/mitigating-climate-risk/hurricane-ian-revisited.html

# Concluding Takeaways

## Affordability Crisis

Insurance markets historically are cyclical with temporary hard market friction following catastrophic events

- 2022-2023 = "perfect" storm of catastrophic losses, inflation (esp. for rebuilding), increased building in risky areas, climate change, and legal costs.

## Availability Crisis

Long-term availability crises = caused by government rate suppression

- Insurers' ability to increase capital is falling short of increasing demand

## Cost-Affordable Solutions

Mitigation & resiliency

# Questions?

Robert Gordon
Senior Vice President
Policy, Research & International
Robert.Gordon@APCI.org

# PROPERTY & CASUALTY (C) COMMITTEE

## *NEW ERA OF RISK FOR HOMEOWNERS INSURANCE MARKETS*

**Cate Paolino**

NAIC Summer National Meeting 2024

# NAMIC MEMBERSHIP AT A GLANCE

**1,450+**
NAMIC
Member Companies

**$391B**
Represented in
Annual Premiums

**7 of Top 10**
U.S. P/C Companies
Among Membership

**56%**
Of the U.S. Auto
Insurance Market

**68%**
Of the U.S. Home
Insurance Market

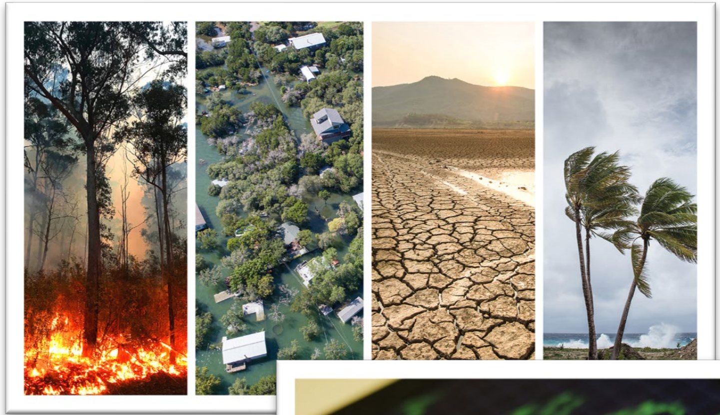
**31%**
Of the U.S. Business
Insurance Market

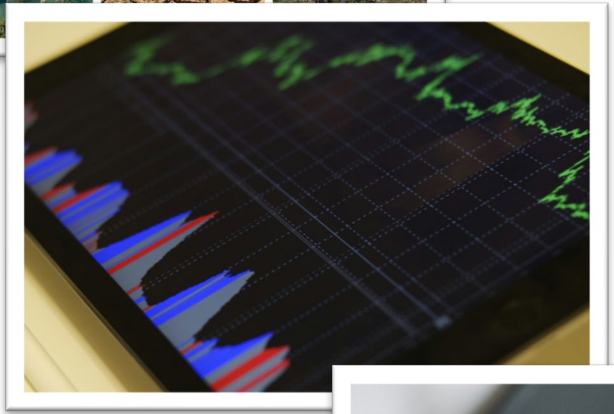
# NEW ERA OF RISK

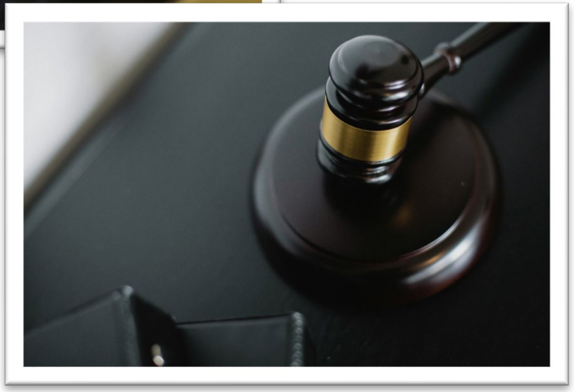
# FACING A "NEW ERA OF RISK"

## Pressures Converging

- Extreme Weather
- Inflation & Economic
- Legal System & Litigation
- Other



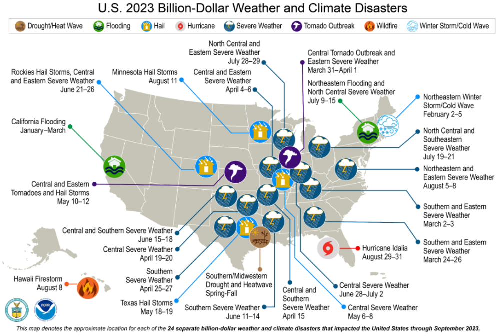


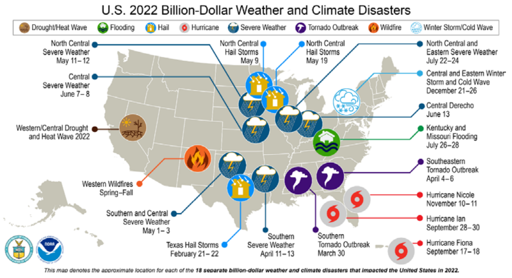


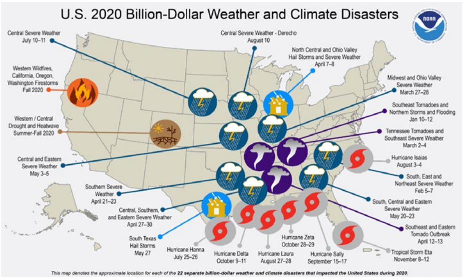
*… Everything, Everywhere, All at Once …*

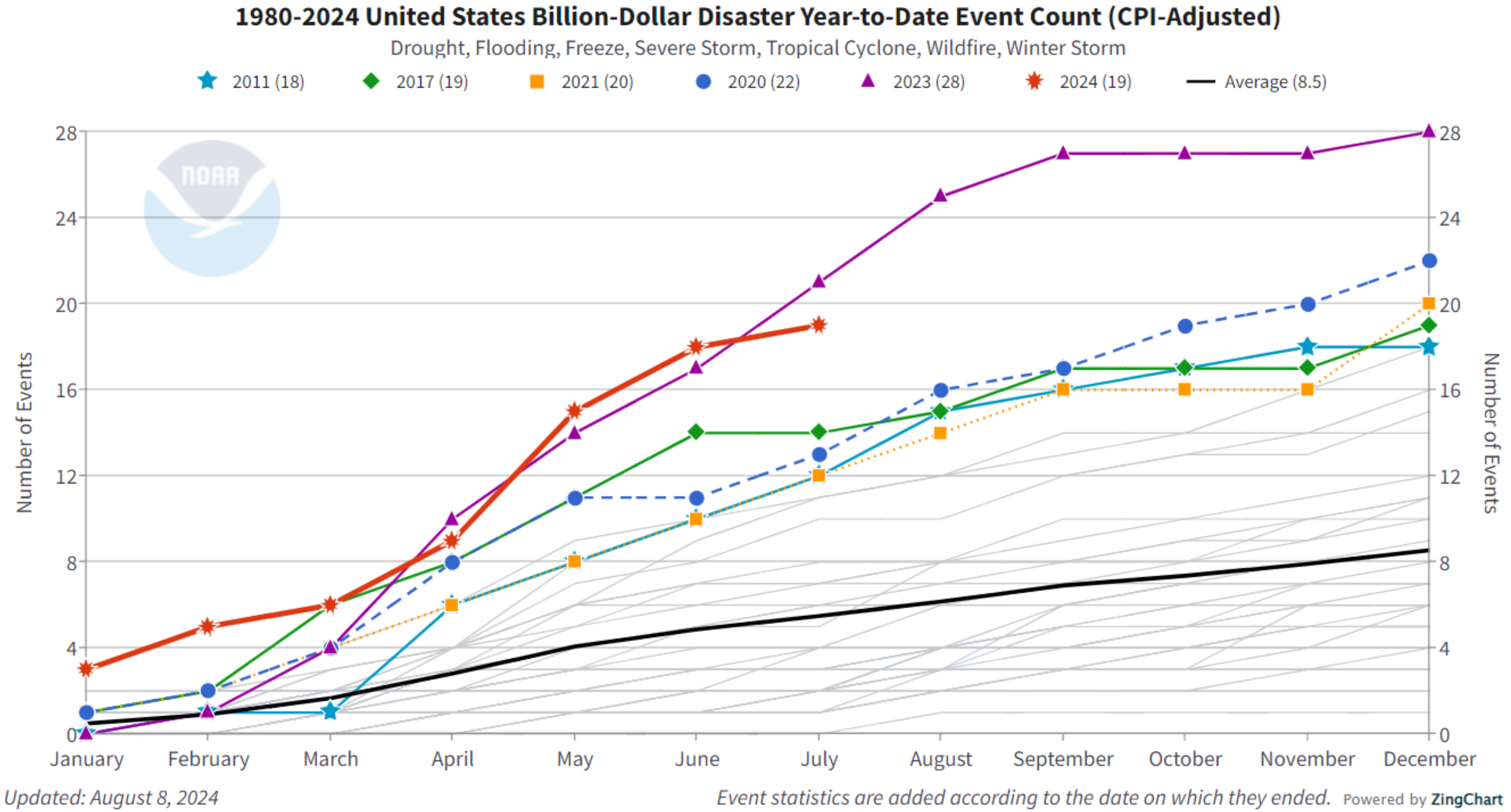

# Extreme Weather

# NEW ERA OF RISK: EXTREME WEATHER



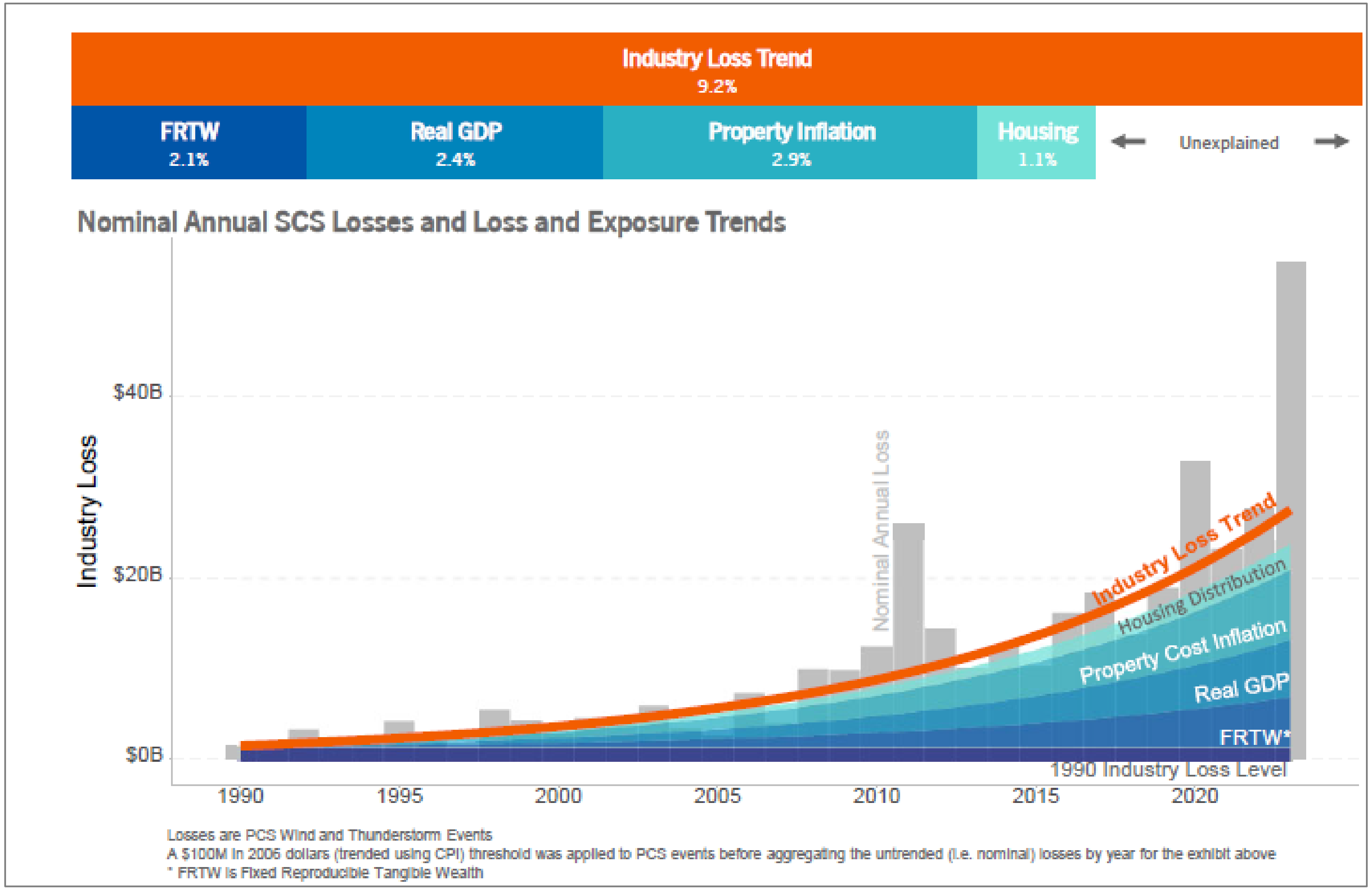




NCEI: For U.S. weather/climate disasters since 1980 where overall damages/costs exceeded $1 billion (CPI adjusted to 2024), **total costs of these 395 events alone were over $2.770 trillion and 16,499 lives.**

# NEW ERA OF RISK: SEVERE CONVECTIVE STORM (SCS) EXAMPLE

From 1990 to 2022, SCS losses increased at an annual rate of 8.9%




Amount of SCS loss growth explained by exposure changes is over 80%

Source: [Rising Losses From Severe Convection Storms Mostly Explained by Exposure Growth (aon.com)]

# Risk-Related Catastrophe/Climate Public Policy Conversations

- Nature and scope
- Risk-based pricing
- Residual markets
- Product innovation
- Home hardening retrofits
- Building codes
- Resilience funding
- Tax incentives/holidays
- BRIC

- Availability/affordability
- Financial/solvency impact
- Creative alternatives
- Technological innovation
- Hazard mitigation
- Land use
- State mitigation grants
- Savings accounts
- CDRZ

# SOLUTIONS IN A "NEW ERA OF RISK" – EXTREME WEATHER

## Bending the Loss Curve Down ... at Scale

# SOLUTIONS IN A "NEW ERA OF RISK" – EXTREME WEATHER

National Institute of BUILDING SCIENCES

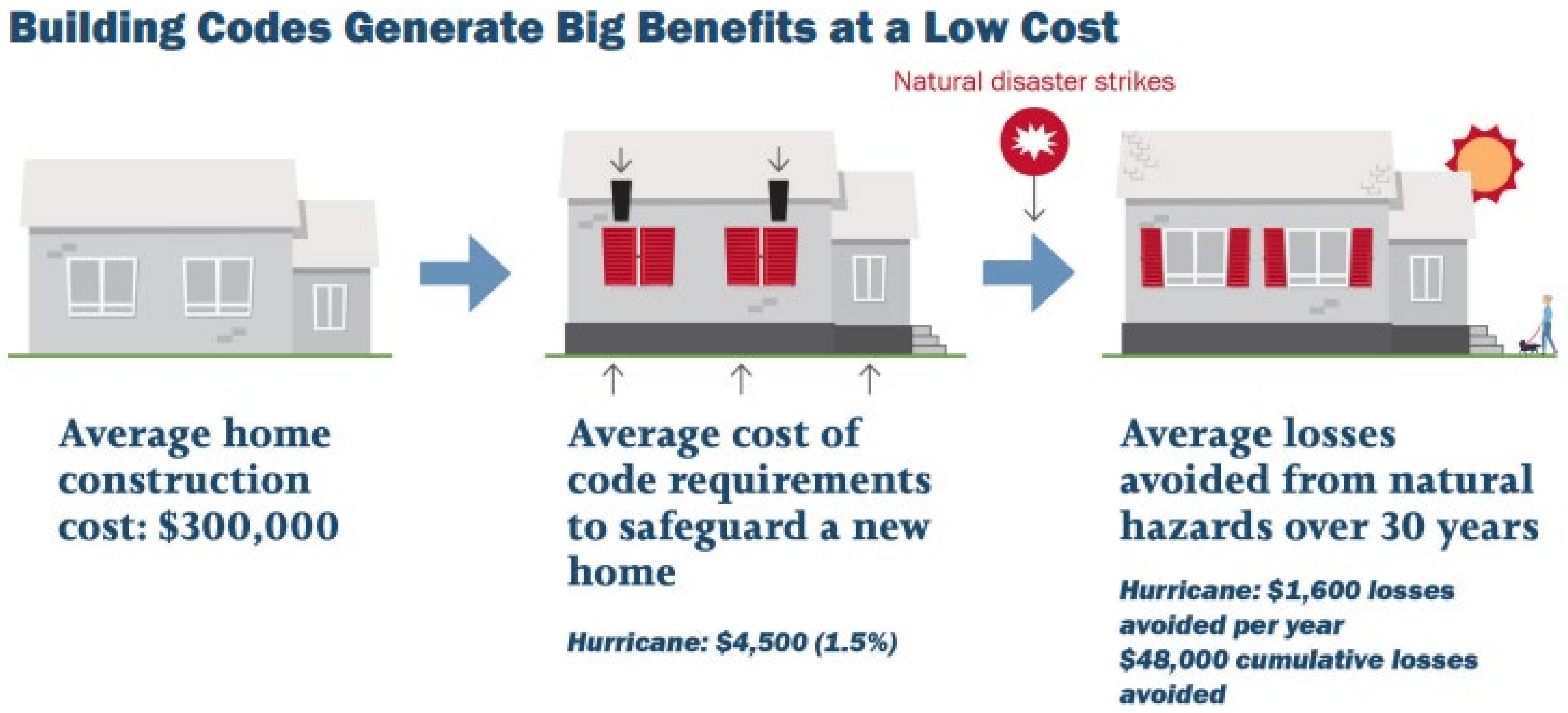
| | ADOPT CODE | ABOVE CODE | BUILDING RETROFIT | LIFELINE RETROFIT | FEDERAL GRANTS |
|---|---|---|---|---|---|
| Overall Benefit-Cost Ratio | 11:1 | 4:1 | 4:1 | 4:1 | 6:1 |
| Cost ($ billion) | $1/year | $4/year | $520 | $0.6 | $27 |
| Benefit ($ billion) | $13/year | $16/year | $2200 | $2.5 | $160 |
| Riverine Flood | 6:1 | 5:1 | 6:1 | 8:1 | 7:1 |
| Hurricane Surge | not applicable | 7:1 | not applicable | not applicable | not applicable |
| Wind | 10:1 | 5:1 | 6:1 | 7:1 | 5:1 |
| Earthquake | 12:1 | 4:1 | 13:1 | 3:1 | 3:1 |
| Wildland-Urban Interface Fire | not applicable | 4:1 | 2:1 | not applicable | 3:1 |



**TABLE 1.** Nationwide average benefit-cost ratio by hazard and mitigation measure. BCRs can vary geographically and can be much higher in some places. Find more details in the report.

*See: https://www.nibs.org/files/pdfs/ms_v4_overview.pdf*

# SOLUTIONS IN A "NEW ERA OF RISK" – EXTREME WEATHER

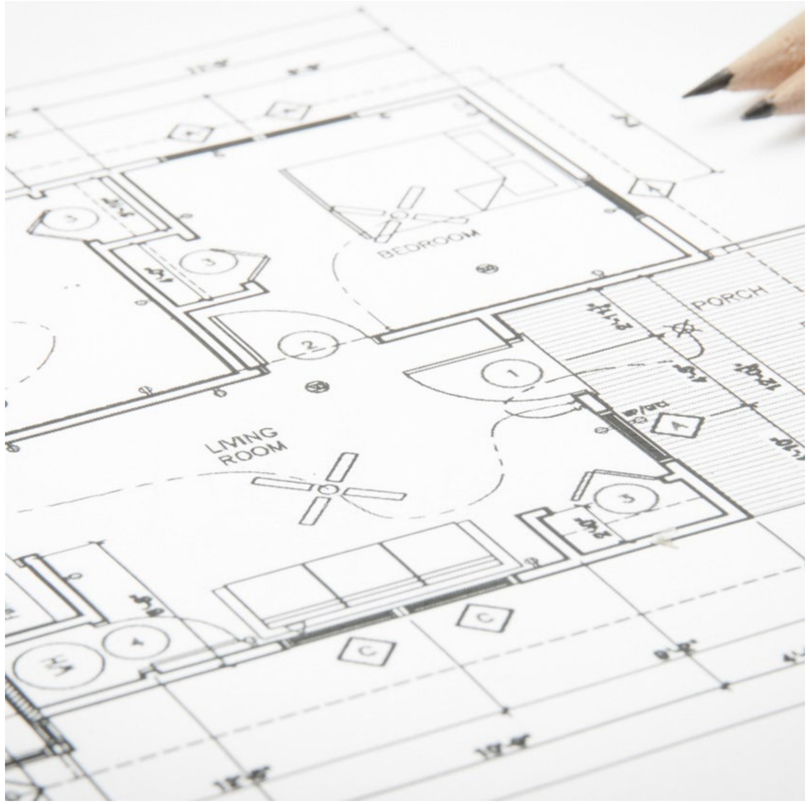



*See: https://www.fema.gov/sites/default/files/2020-11/fema_building-codes-save_brochure.pdf*

# SOLUTIONS IN A "NEW ERA OF RISK" – EXTREME WEATHER

**IBHS - FORTIFIED & WILDFIRE PREPARED:** Leveraging resources

*Source: https://ibhs.org/*




**RETROFITS -** Acknowledging reality: **70 percent** of the built environment is aging and are not close to current building standards

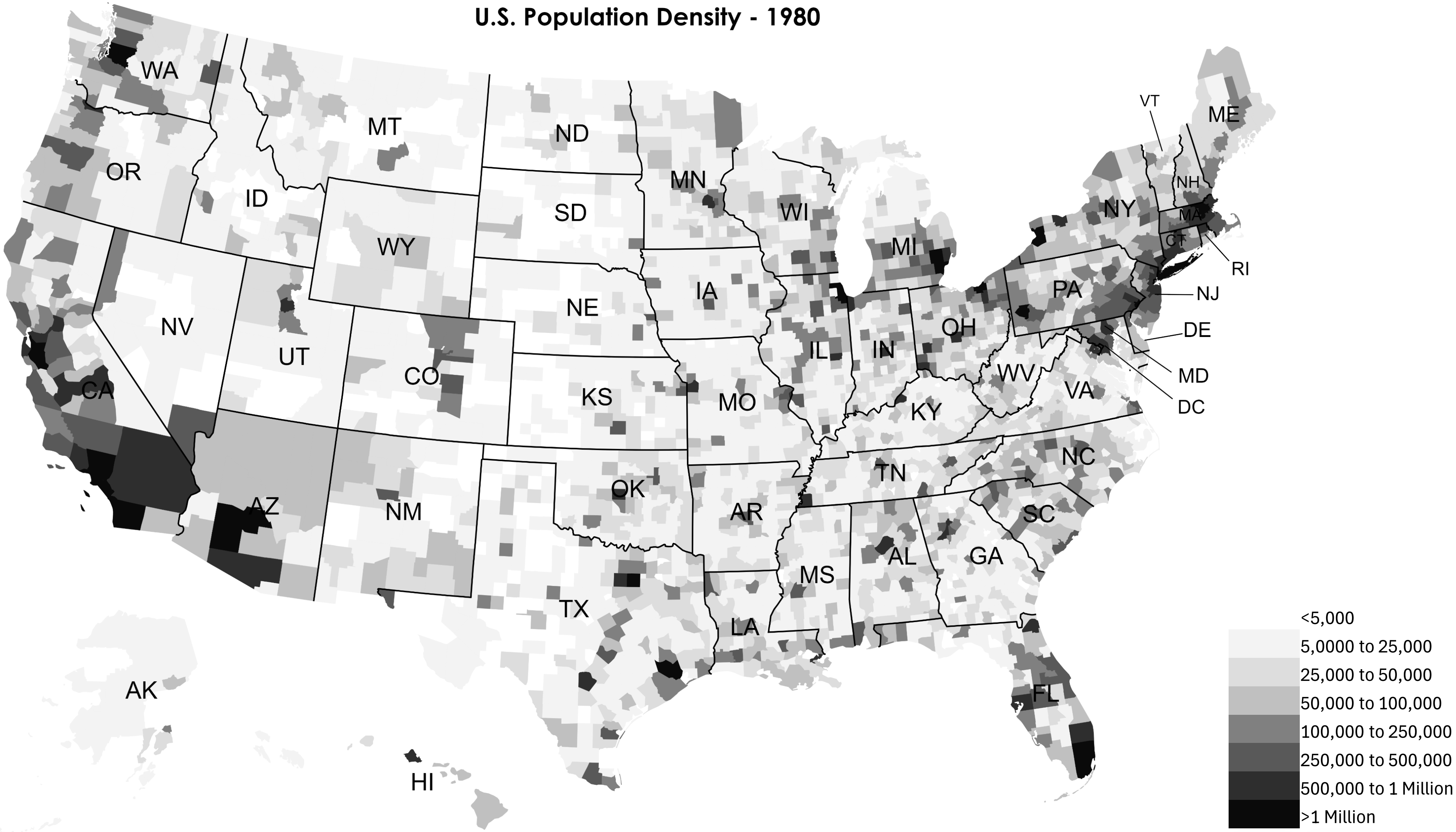
*Source :https://www.fema.gov/sites/default/files/2020-11/fema_building-codes-save_study.pdf*

# SOLUTIONS IN A "NEW ERA OF RISK“ – EXTREME WEATHER



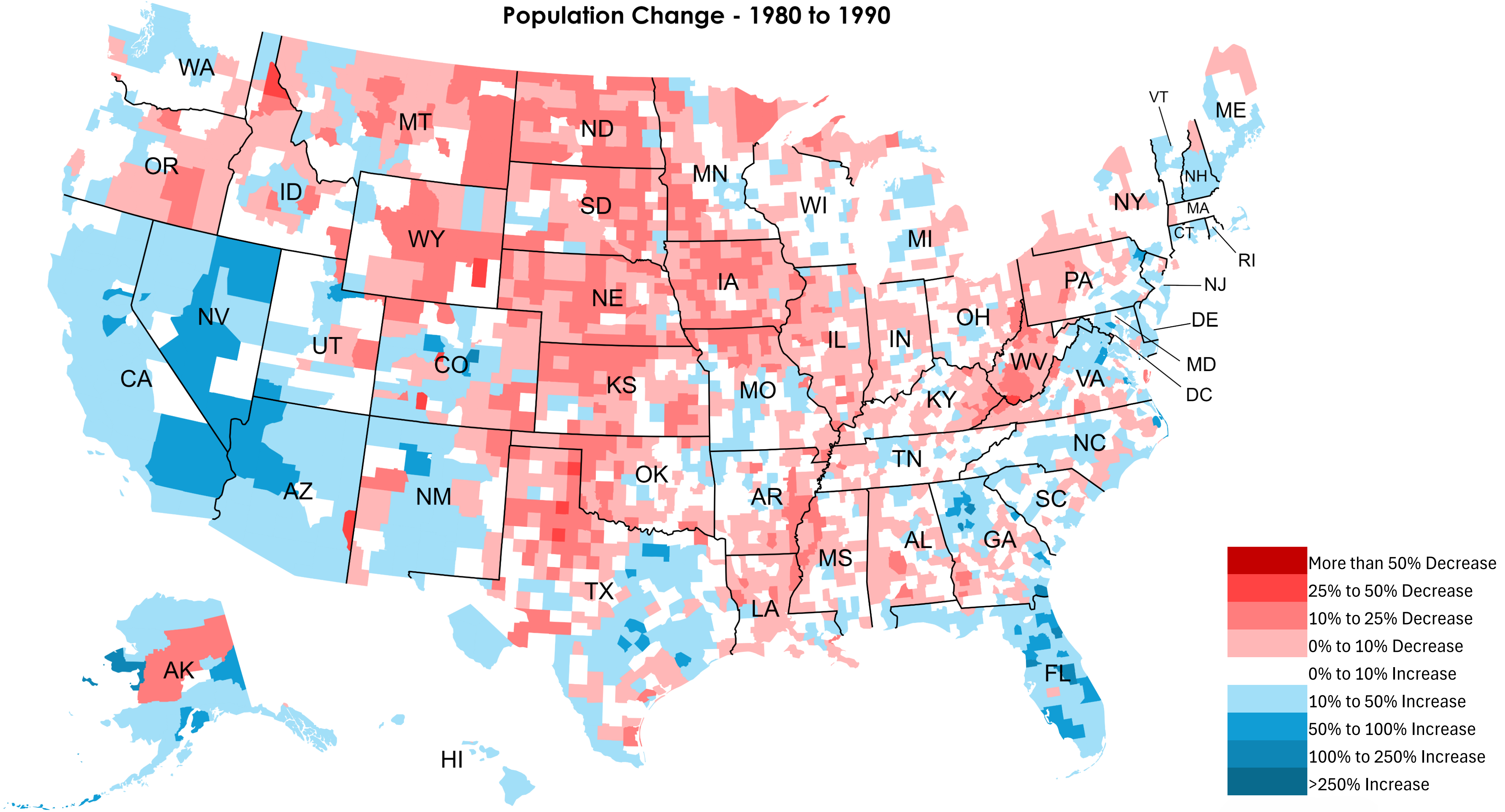
*See: https://www.uschamber.com/security/the-preparedness-payoff-the-economic-benefits-of-investing-in-climate-resilience*

## U.S. Population Density - 1980



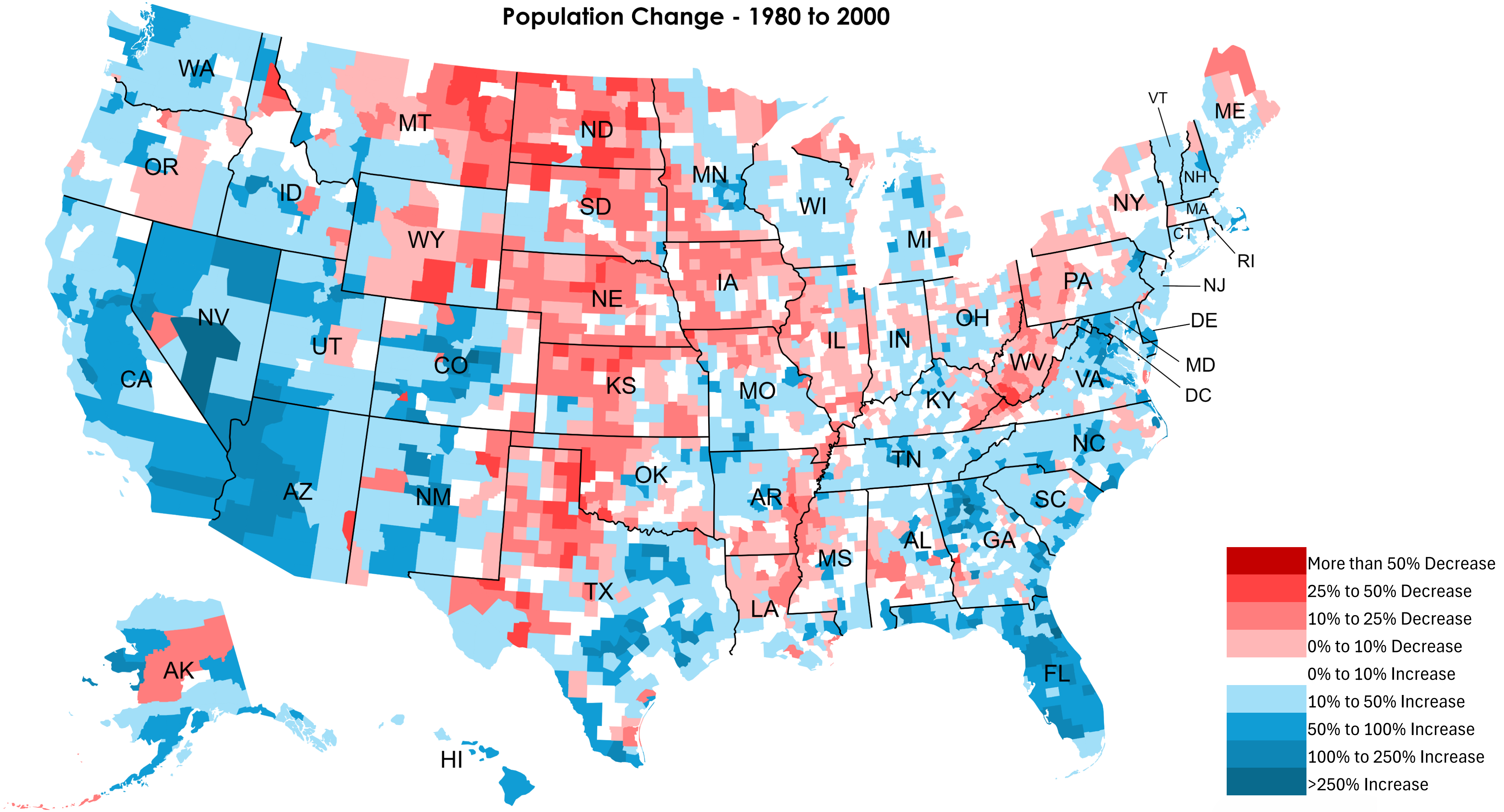

Source: U.S. Bureau of the Census, County Intercensal Tables 1980-1990

# Population Change - 1980 to 1990



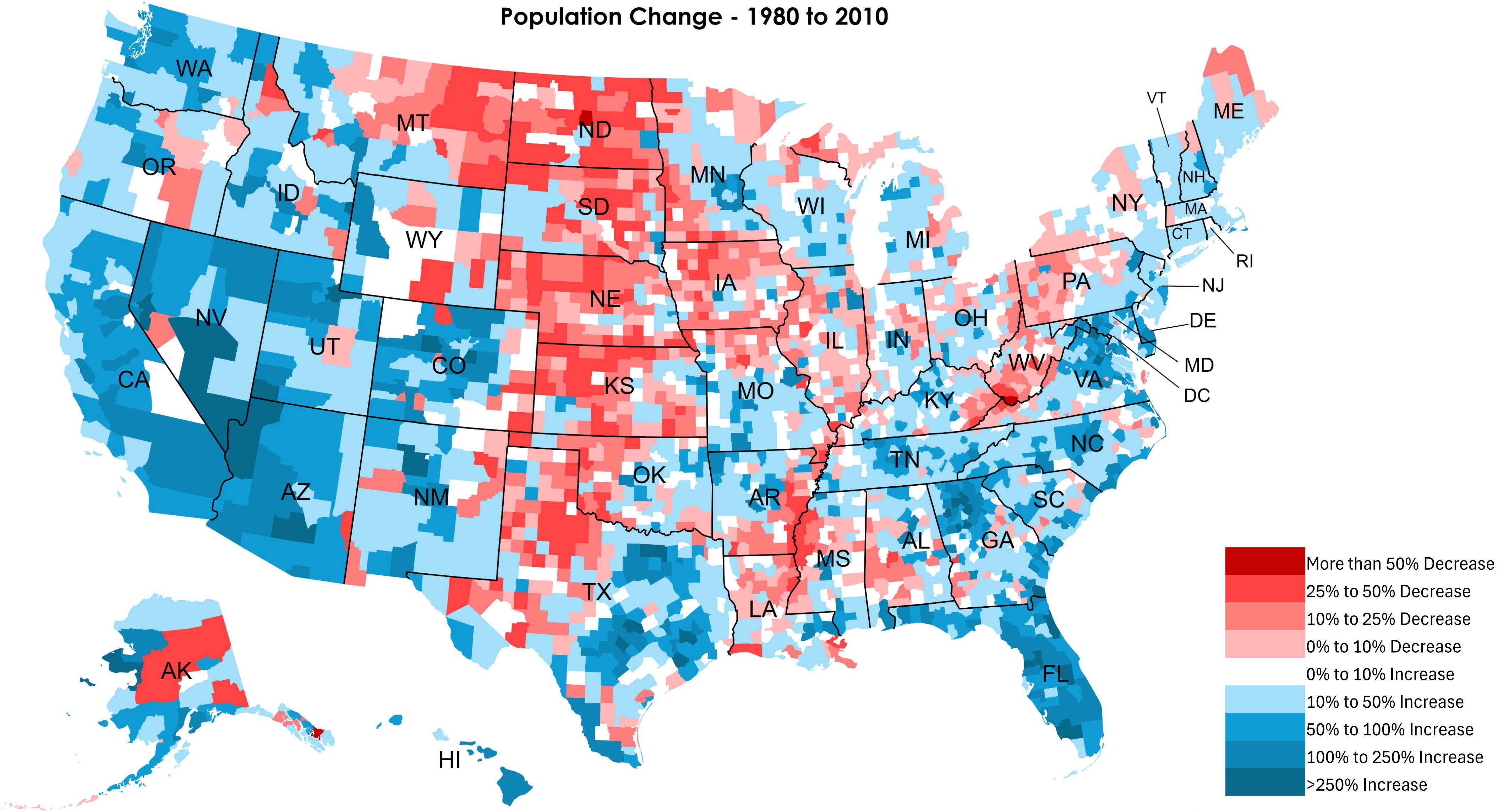

Source: U.S. Census Bureau, Census 2000 Redistricting Data (P.L.94-171) Summary File and 1990 Census

# Population Change - 1980 to 2000



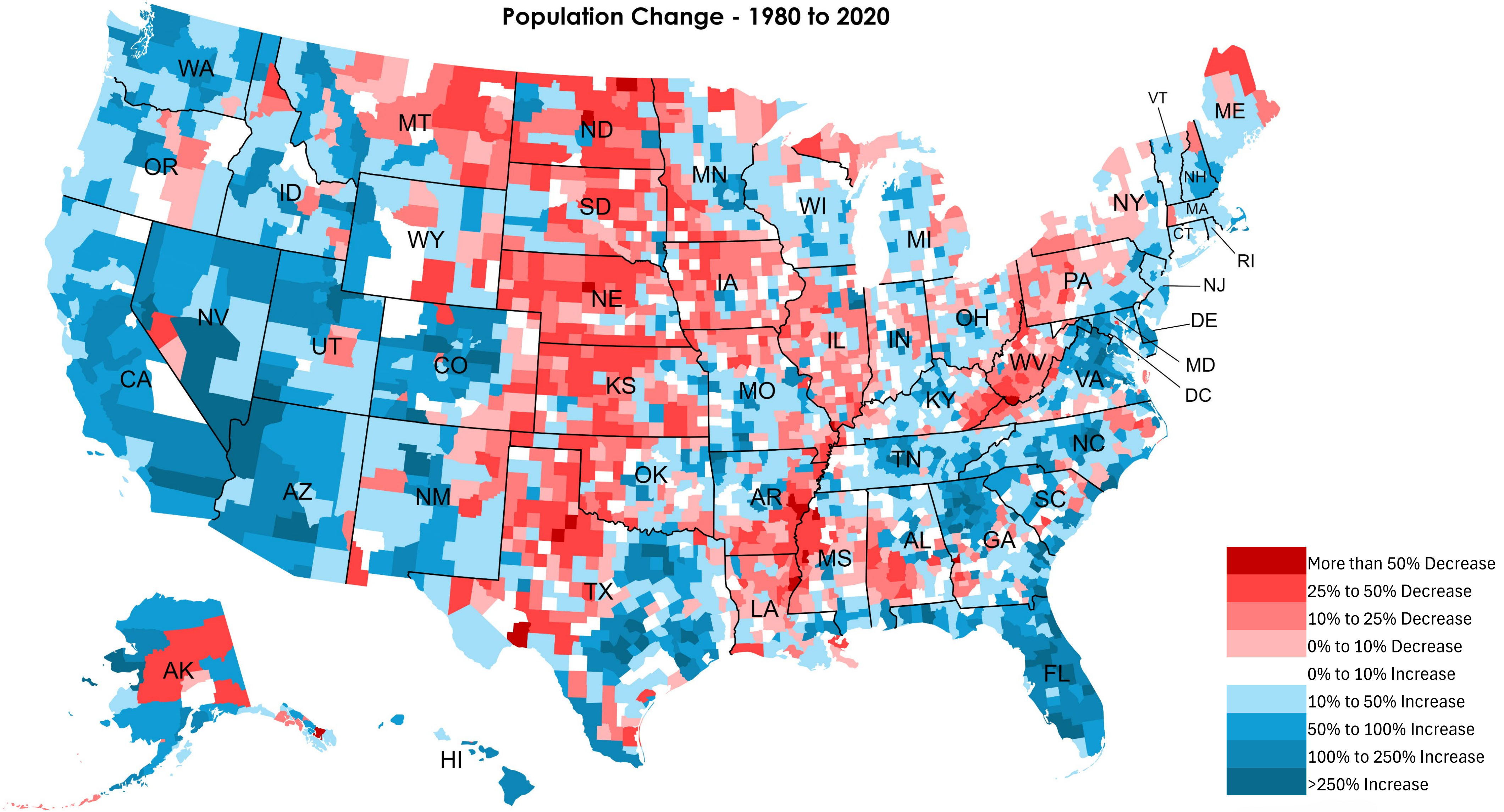

Source: U.S. Census Bureau, Census 2000 Redistricting Data (P.L.94-171) Summary File and 2000 Census

# Population Change - 1980 to 2010




Source: U.S. Census Bureau, Intercensal Estimates of the Resident Population for Counties and States, Census 2010

## Population Change - 1980 to 2020




Source: U.S. Census Bureau, Annual Estimates of the Resident Population for Counties, Census 2020

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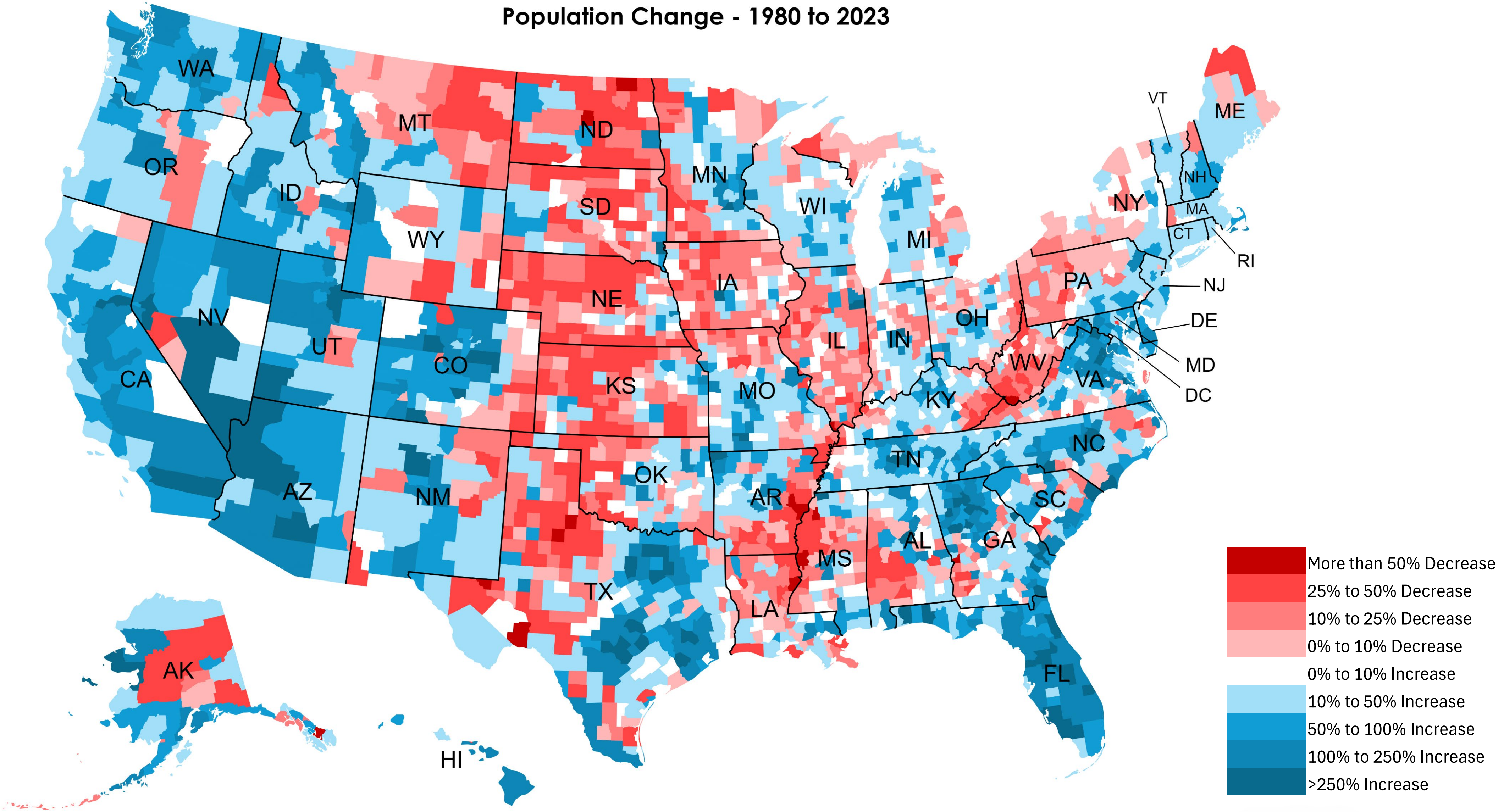
## Population Change - 1980 to 2023




Source: U.S. Census Bureau, Annual Estimates of the Resident Population for Counties, *U.S. Census Bureau 2023 Estimate

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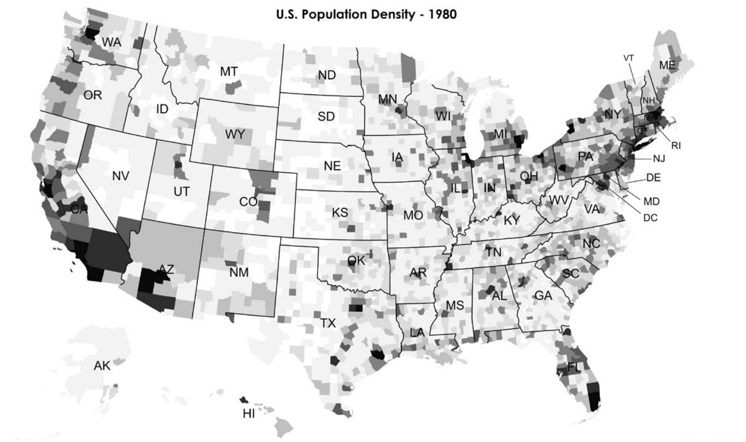
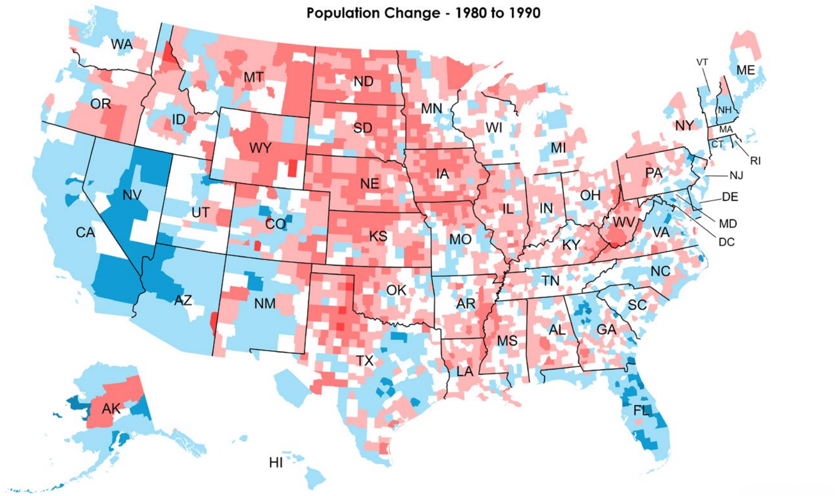
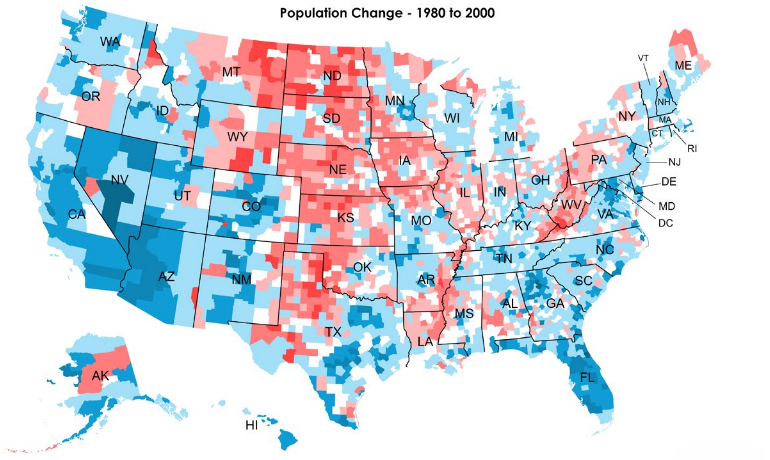
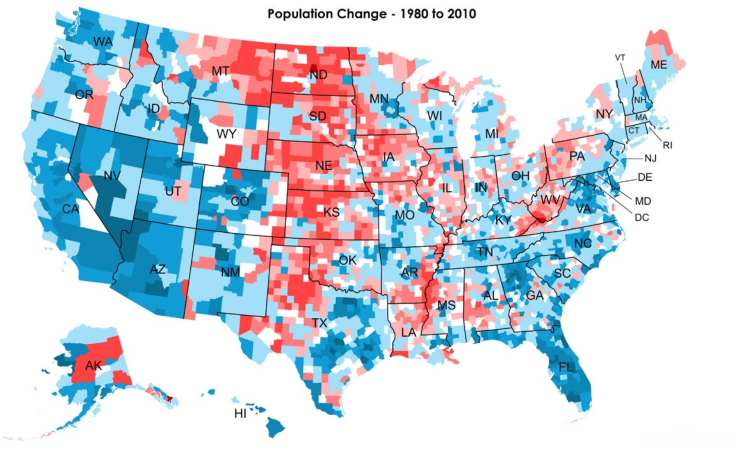
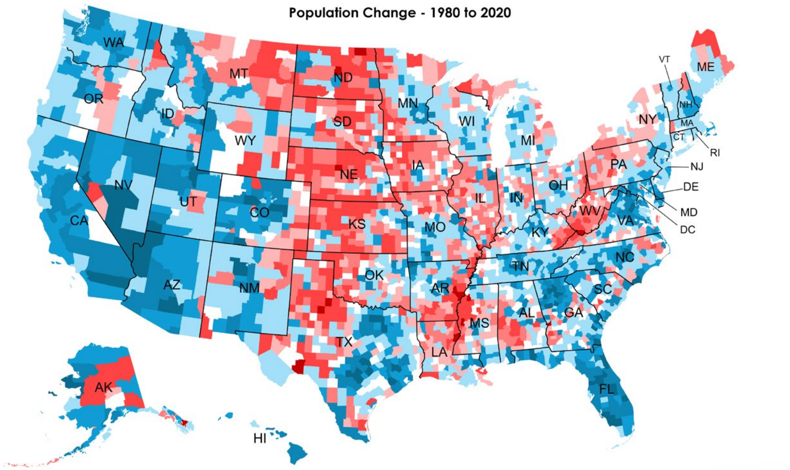
# POPULATION DENSITY & SHIFTS & "NEW ERA OF RISK"

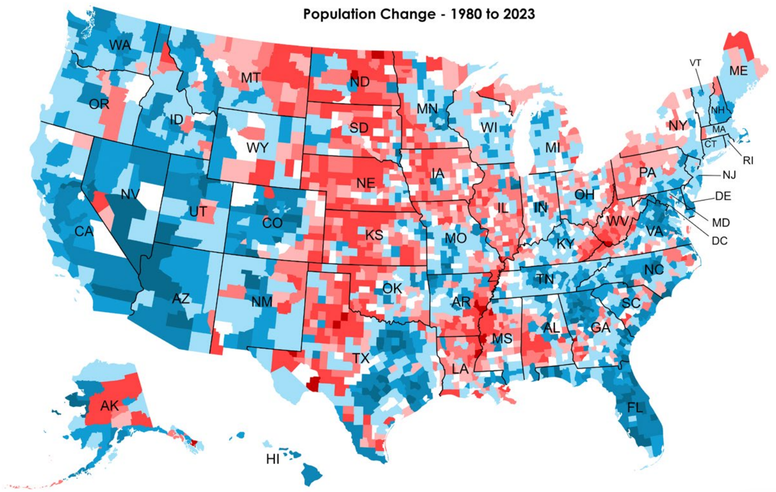


## Partnering with other state agencies

- Cross-agency council (or other mechanism)
  - Increased communication and facilitation
    - Building codes
    - Land use challenges
    - Hazard mitigation
    - Infrastructure
    - Funding
    - Prioritizing mitigation activities

## Federal Housing Finance Agency (FHFA) and Government Sponsored Enterprises (GSEs) [Fannie Mae & Freddie Mac]

### Servicing Guides/Announcement

- February 2024: Replacement cost only and other requirements

### Current State

- May 2024 GSE enforcement pause: *"not to cite findings of noncompliance" and allow for stakeholder discussions*
- May 2024 GSE Chief Credit Officer Perspectives Blog
- Confusion and requests
- Stakeholder discussion / NAIC / Regulator interest and involvement

## FHFA & GSEs: Claim Settlement Approach for GSE-Backed Mortgages

*... Replacement Cost Only?*

### *Diverse Products Protect GSEs, Markets, and Individual Consumers*

- Roofs
- Non-Standard Coverage
  - Fixer-Upper
  - Investment Properties
- Consumer Choice
- Downstream Impacts

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## FHFA & GSEs: Claim Settlement Approach for GSE-Backed Mortgages

*... Replacement Cost Only?*

### Diverse Products Protect GSEs, Markets, and Individual Consumers

QUESTION

If the FHFA establishes a replacement cost only requirement, would you expect some existing policies to no longer meet underwriting criteria?

89% say yes


# Inflation & Economic Pressures

## Reinsurance

### Inflation

### Severity

### Additional capacity

Renewal costs

**+30.1% in 2023**

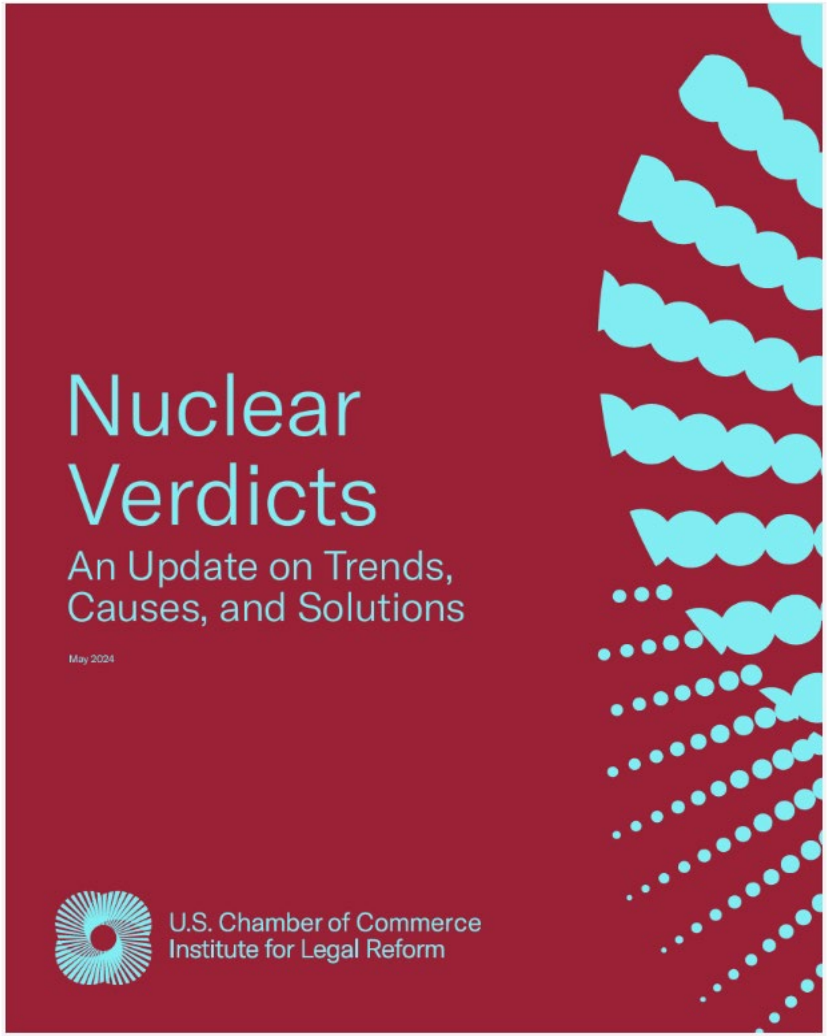
**+14.8% in 2022**

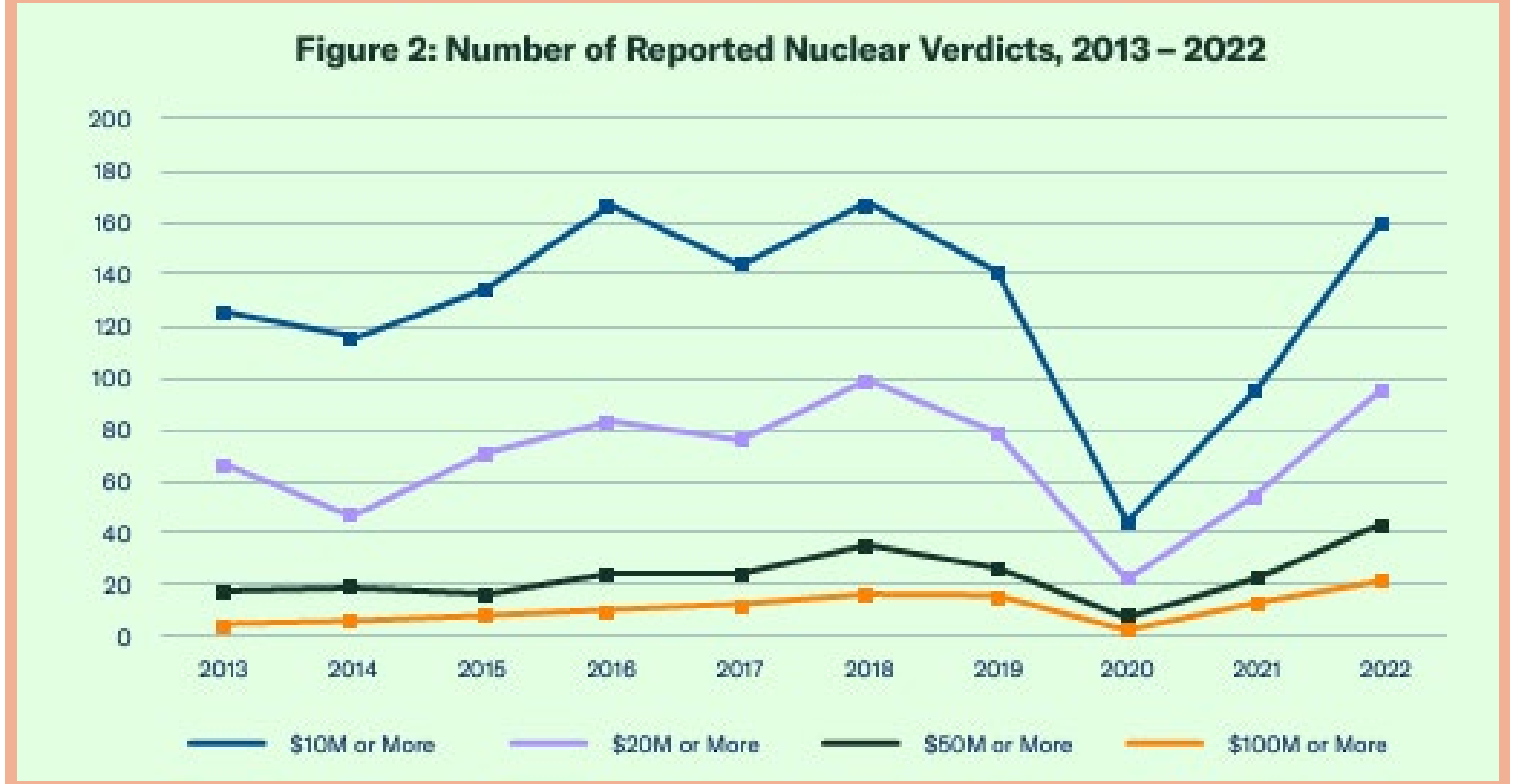
Source: https://www.reinsurancene.ws/us-property-cat-reinsurance-rates-on-line-up-30-1-at-january-renewals-guy-carpenter/

# NEW ERA OF RISK

## Legal System Abuses & Litigation

# NEW ERA OF RISK: LEGAL SYSTEM ABUSES ESCALATE

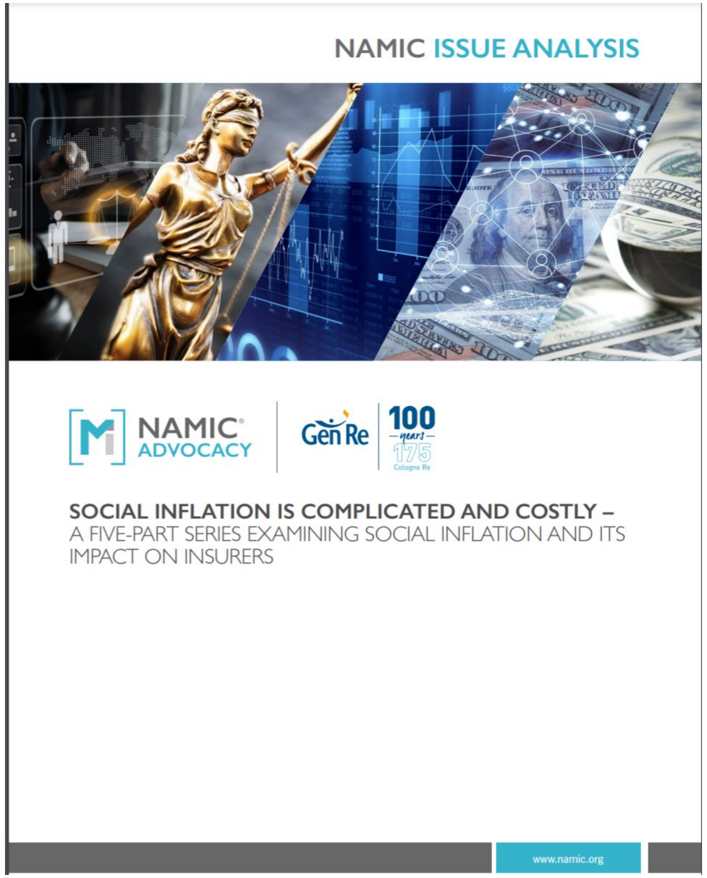



Source: https://instituteforlegalreform.com/wp-content/uploads/2024/05/ILR-2024-Nuclear-Verdicts-Study.pdf

## Example: Rise in Third-Party Litigation Funding

- Providing **working capital** to contingency fee plaintiff firms
- Using **sophisticated technology** to aid trial presentations
- Identifying checks and balances – requiring **disclosure** and other protections




Source: https://www.namic.org/pdf/publicpolicy/210920_socialinflation_full.pdf

## Enacting Reforms

# 19 Florida insurers file for rate decreases or no increases in 2024

Is your insurance company on this list?

Source: 19 Florida insurers file for rate decreases or no increases in 2024 (wptv.com)


# ADVANCING AMIDST PRESSURE

# SEEKING SOLUTIONS IN A "NEW ERA OF RISK"

## Pressures Converging

- Extreme Weather
- Inflation & Economic
- Legal System & Litigation
- Other

*… Everything, Everywhere, All at Once …*

# SEEKING SOLUTIONS IN A "NEW ERA OF RISK"

Multi-pronged approach to **bend the curve**: package of mitigation and resiliency steps – from grants to savings accounts, and from building codes to land use, and from collaborating with other agencies to so many other possibilities…

Retaining discipline with respect to **fundamentals** like **risk-based pricing, consumer choice**, and market-based **competition**

Putting **guardrails** around litigation and taking steps to combat legal system abuse




# NEW ERA OF RISK

# THANK YOU