

CLIMATE AND RESILIENCY (EX) TASK FORCE

Climate and Resiliency (EX) Task Force, March 24, 2023, Minutes

Draft Pending Adoption

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Climate and Resiliency (EX) Task Force
Louisville, Kentucky
March 24, 2023

The Climate and Resiliency (EX) Task Force met in Louisville, KY, March 24, 2023. The following Task Force members participated: Lori K. Wing-Heier, Co-Chair (AK); Ricardo Lara, Co-Chair (CA); James J. Donelon, Co-Vice Chair (LA); Mike Kreidler, Co-Vice Chair (WA); Mark Fowler (AL); Peni Itula Sapini Teo (AS); Barbara D. Richardson (AZ); Michael Conway represented by Peg Brown (CO); Andrew N. Mais represented by Wanchin Chou (CT); Trinidad Navarro represented by Susan Jennette (DE); Michael Yaworsky represented by Anoush Brangaccio (FL); Gordon I. Ito (HI); Doug Ommen (IA); Dana Popish Severinghaus (IL); Amy L. Beard represented by Patrick O'Connor (IN); Sharon P. Clark represented by Shawn Boggs (KY); Gary D. Anderson represented by Rachel M. Davison (MA); Kathleen A. Birrane (MD); Timothy N. Schott (ME); Anita G. Fox represented by Chad Arnold (MI); Chlora Lindley-Myers represented by Cynthia Amann (MO); Mike Chaney represented by Andy Case (MS); Troy Downing represented by Bob Biskupiak (MT); Mike Causey represented by Jackie Obusek (NC); Jon Godfread (ND); Eric Dunning (NE); Jennifer Catechis (NM); Scott Kipper represented by David Cassetty (NV); Adrienne A. Harris represented by John Finston (NY); Judith L. French (OH); Glen Mulready (OK); Andrew R. Stolfi represented by Alex Cheng (OR); Michael Humphreys represented by Michael McKenney (PA); Elizabeth Kelleher Dwyer represented by Matt Gendron (RI); Michael Wise (SC); Scott A. White (VA); Kevin Gaffney (VT); Nathan Houdek represented by Sarah Smith (WI); and Jeff Rude (WY). Also participating were: Alan McClain (AR); Christian Citarella (NH); Tregenza A. Roach (VI); and Allan L. McVey (WV).

1. Received Updates from its Workstreams

Director Wing-Heier said the Pre-Disaster Mitigation Workstream will continue to be led by Director Richardson. She said the Climate Risk Disclosure Workstream will continue to be led by Commissioner Stolfi. She said the Technology Workstream and Innovation Workstream will be combined into one Technology Workstream that will be led by Commissioner Donelon. She said the Solvency Workstream will continue to be led by Commissioner Birrane.

Commissioner Birrane said in the first half of 2022, the Solvency Workstream developed and sent three referrals to three different Financial Condition (E) Committee working groups to propose specific enhancements to the existing financial solvency tools to more explicitly consider climate-related risks. She said the Workstream is reaching back out to those groups to see what the status is regarding their consideration of the referrals. She said the Workstream focused on climate scenario analysis in 2022, holding three public panels to discuss the topic. She said the first panel was held Oct. 12, 2022, and it provided a foundational education on climate scenario analysis, including what it is intended to accomplish and what data is needed to do the analysis effectively. She said the second panel was held Nov. 4, 2022, and it included presentations from international jurisdictions that have required the industry or a subset of the industry to participate in mandatory analytical risk evaluation exercises. She said the third panel was held Nov. 29, 2022, and it included presentations from a property/casualty (P/C) carrier and a life insurance carrier on how they utilize climate scenario analysis in their risk management and business strategy.

Commissioner Birrane said the Solvency Workstream is now tasked with understanding what role climate scenario analysis plays in the oversight of insurers in the U.S. She said on Feb. 1, the Workstream met in regulator-to-regulator session to: 1) receive a presentation from the Federal Reserve on its recently exposed proposed climate scenario analysis exercise; and 2) discuss members' initial view on the role of climate scenario analysis as a financial oversight tool for U.S. state insurance regulators.

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Commissioner Birrane said the next steps for the Solvency Workstream include developing and sending out a survey to its members and interested state insurance regulators on whether the Workstream and the NAIC should look at the development and incorporation of any form of specific climate scenario analysis approach with regard to current oversight tools. She said the Solvency Workstream would also begin to look at stress testing. She said it would hold public meetings that would include education for state insurance regulators and others on climate stress testing, as well as hearing from international jurisdictions that are using climate stress tests.

2. Adopted its 2022 Fall National Meeting Minutes

Director Wing-Heier said the Task Force met Dec. 15, 2022.

Commissioner Kreidler made a motion, seconded by Commissioner Donelon, to adopt the Task Force's Dec. 15, 2022, minutes (*see NAIC Proceedings – Fall 2022, Climate and Resiliency (EX) Task Force*). The motion passed unanimously.

3. Heard a Presentation from PSC on Flood Risk

Matthew Godsoe (Public Safety Canada—PSC) said with the increase in frequency and severity of disaster events, the need to address flooding and other disasters has become an elevated priority within the Canadian government. He said a December 2021 mandate from the Canadian Prime Minister sets out provisions to take actions to help Canadians be prepared for and recover from the impact of floods in high-risk areas by creating a low-cost national flood insurance program to protect homeowners who are at high risk of flooding and do not have adequate insurance protection. He said this issue has to be addressed by the federal, provincial, and territorial governments working together.

Godsoe said flooding is Canada's most frequent and costly natural disaster, causing over \$1.5 billion in direct damage to homes each year. He said 94% of Canadians in high-risk areas remain unaware of their flood risk. He said most of the major cities in Canada are wholly or partially located in flood zones, and new unmitigated developments in these cities are the current number one driver of flood risk in Canada. He said financial and social hardships that occur because of disasters disproportionately affect vulnerable and marginalized populations. He said to date, almost all residential flood losses have been ineligible for insurance coverage; therefore, those losses had to be covered by provincial and territorial government disaster assistance programs.

Godsoe said the PSC created a Task Force on Flood Insurance and Relocation to explore viable solutions for insurance in high-risk areas and considerations for the potential relocation of homes most at risk of repeat flooding. He said the Task Force did not decide on an insurance or relocation solution, but it undertook research, costing, and analysis to inform future decision-making processes. He said this work concludes with its report titled *Adapting to Risking Flood Risk: An Analysis of Insurance Solutions for Canada*.

Godsoe said the Task Force created six public policy objectives to serve as a framework to later assess the viability of insurance arrangements. He said those objectives were: 1) provide adequate and predictable financial compensation for residents in high-risk areas; 2) incorporate risk-informed price signals and other levers that promote risk-appropriate land use, mitigation, and improved flood resiliency; 3) be affordable to residents of high-risk areas, with specific consideration for marginalized, vulnerable, and/or diverse populations; 4) provide coverage that is widely available for those at a higher risk across all regions; 5) maximize the participation of residents in high-risk areas; and 6) provide value for money for governments and taxpayers. He said the Task Force also focused on the need for targeted risk reduction activities through the mitigation and relocation for those in high-risk areas, which included household defenses, community flood mitigation, national support for risk reduction, and strategic relocation.

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Godsoe said the Task Force studied international examples of how other countries were dealing with flood risk and other natural disasters. He said it referenced the work of Australia, France, the United Kingdom (UK), and the U.S. He said the Task Force put forth six potential insurance arrangements for analysis, and four were determined to be viable options in Canada. He said two of the arrangements were based on public-private pooling, and two arrangements were based on direct intervention in the insurance and reinsurance markets.

Godsoe said the report highlights four obstacles that Canada could potentially face based on the flood arrangements: 1) uncertainty; 2) market penetration; 3) affordability; and 4) moral hazard. He said the report also includes recommendations to overcome these obstacles.

Godsoe said the Canadian federal government will need to put forth its position based on the recommendations in the report. He said once that position has been determined, the PSC will go back to working with the provincial and territorial governments to implement one of the models.

4. Heard a Presentation from the CCIR on Flood Risk

Lucas Neufeld (Canadian Council of Insurance Regulators—CCIR) said a CCIR working group released a paper in 2016 that focused on the impact of catastrophic floods and other perils on personal property insurance. He said with the increase in frequency and severity of these perils, the CCIR has released multiple reports that highlight findings on its research on these perils and property insurance. He said the common element in all of its reports is that there remain consumer protection gaps, which is the cost to rebuild plus additional living expenses, less insurance coverage. He said this includes both uninsured and underinsured consumers.

Neufeld said the CCIR has identified consumer awareness gaps, such as low awareness of one's property specific risk, low awareness of available insurance coverage options, low awareness of actual coverage purchased, and low awareness of what is and is not covered by provincial disaster financial assistance programs. He said these are limiting the uptake of flood coverage and potentially adding to the overall consumer protection gaps. He said industry is aware of the knowledge gaps and has created materials to address these gaps. He said there is still a disconnect between consumers having access to those materials and actual action to address and decrease the gaps. He said one example of this is that even though flood mapping is generally widely available, 80% of surveyed Canadians say they have not seen a flood map for the community they live in.

Neufeld said an important element of the work of the CCIR is to address property-specific risk. He said these include knowing the likelihood of flooding and the severity and frequency that could increase due to climate factors. He said structure and land-specific risks also need to be addressed, as these could potentially be mitigated due to personal or public action.

Neufeld said a forthcoming report from the CCIR working group highlights five recommendations: 1) identify and implement best practices for assessing and communicating property-specific natural catastrophe risk at the point of sale and renewal; 2) identify and implement best practices that insurers and intermediaries may use to communicate natural catastrophe related insurance options to customers; 3) take steps to ensure that consumers understand the insurance product they are being offered, including a simplified approach to summarizing coverage on the first page of the policy; 4) design innovative products and create incentives to encourage customers to act on personalized advice and product features; and 5) train and educate those selling insurance products to ensure that they understand the product's key features, including how it aligns with the customer's needs.

Director Wing-Heier asked if there will be a mandate for insurers and intermediaries to disclose the need for flood insurance. Rob O'Brien (CCIR) said in Canada, that decision would occur at a provincial or territorial level.

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Director Richardson asked whether strategic relocation would kick in when there is no insurance available or because insurance is so expensive that current residents cannot afford it. Godsoe said some provinces provide dedicated relocation funding even if insurance has not been purchased, but the funding amount is capped and usually does not meet the market value of properties. He said with the future government decision on a national flood insurance arrangement, there may be a more consistent approach.

Commissioner Lara asked who is responsible for creating the flood maps. Godsoe said regulatory flood maps are developed by local governments, provinces, or territories. He said while most Canadian residents are covered by these flood maps, they only represent a small percentage of Canadian land mass. He said the PSC has been working with insurers to look at flood models to create maps in addition to the already created regulatory flood maps.

Chou asked how big the private flood insurance market is in Canada. O'Brien said in 2020, direct written premiums were about \$71 billion, but that is not broken out between auto and property coverage.

Chou asked who is working on the model validation in the PSC work. Godsoe said the Task Force is using a composite of private sector models that are overlaid on top of one another and calibrated against the regulatory flood maps. He said after a federal government decision, the PSC would come up with a Canadian model based on interventions from private catastrophe modeling firms that would provide a standard view to bring to the provinces and territories.

Aaron Brandenburg (NAIC) said the NAIC has collected private flood insurance data starting with premium and loss data from the NAIC Financial Annual Statement State Page. He said the NAIC issued a data call in 2020 to collect 2018 and 2019 data at a much more granular level, which led to the inclusion of a Private Flood Insurance Supplement in the Annual Statement. He said the data call and supplement collected data split out between commercial and residential, as well as data on a standalone, first dollar, excess, and endorsement basis. He said it also included data elements such as the number of policies, number of claims, and claims closed with payment. He said this data showed that in 2021, there were over 360,000 residential flood insurance policies, which was a 29% increase over the previous year. He said the 2022 NAIC Annual Statement State Page showed an increase of 21% in direct written premium for private flood.

5. Heard an International Update

Ryan Workman (NAIC) said the International Association of Insurance Supervisors (IAIS) launched one of three public consultations planned for the next year and a half looking at the initial approach of its work to address climate risk. He said the IAIS started off doing an assessment and review of existing insurance core principles (ICPs), which found the way those principles are drafted to accommodate climate risk and are applicable, but they also identified some areas where it might be helpful to provide additional supporting material on ways climate plays on in different contexts.

Workman said the IAIS has a workstream that is developing an application paper that is looking at climate issues as they relate to enterprise risk management (ERM) and macroprudential supervision.

Workman said the IAIS published a special topic edition of its *Global Insurance Market Report* (GIMAR) in 2021, which was a first attempt to look at doing a quantitative global study on the impact of climate change in the insurance sector. He said the current global monitoring exercise (GME) has seen the addition of data elements that would help the IAIS collect annual data on insurance sector risks, looking particularly at climate risks.

Workman said the Sustainable Insurance Forum (SIF) is continuing its work on net zero, which is identifying a potential role for insurance supervisors in the net zero transition. He said this group is looking at how to leverage

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existing practices around the globe to address access and affordability issues. He said the group plans to meet in the second quarter of this year.

Workman said the (European Union) EU-U.S. dialog project has two workstreams focused on climate: 1) Climate Risk and Financial Oversight; and 2) Climate Risk and Resilience. He said the project is holding a public stakeholder event on June 16.

6. Heard a Federal Update

Shana Oppenheim (NAIC) said the National Flood Insurance Program (NFIP) authorization is set to expire on Sept. 30. She said it has been reauthorized on a short-term basis 25 times since 2017. She said on March 10, the U.S. House of Representatives (House) Financial Services Subcommittee on Housing, Community Development, and Insurance, led by Chairman Warren Davidson (R-OH), held a hearing entitled “How Do We Encourage Greater Flood Insurance Coverage in America?” She said Republicans were focused on encouraging private flood uptake, especially in regions outside of flood zones. She said they also expressed interest in examining federal regulatory barriers to private flood insurance, consumer information, and public awareness. She said Democrats expressed an interest in bipartisan, long-term authorization and looking at the diversity, equity, and inclusion (DE&I) aspects of flood risk and insurance. She said U.S. Sen. John Kennedy (R-LA) has introduced bills to cap annual flood insurance premium increases and force the Federal Emergency Management Agency (FEMA) to explain price changes under Risk Rating 2.0. She said U.S. Rep. Blaine Luetkemeyer (R-MO) has introduced bills to require that FEMA purchase reinsurance to pay for flood losses and allow communities to develop alternative flood maps.

Oppenheim said the U.S. Securities and Exchange Commission’s (SEC’s) climate risk disclosure is expected to be finalized in the next few months. She said the chair, Gary Gensler (D-MD) may be signaling a departure from the International Sustainability Standards Board (ISSB) standards.

Oppenheim said the Federal Insurance Office (FIO) has not yet released the climate report that was expected at the end of 2022. She said in October 2022, the FIO published a notice and request for comment on a proposal to collect data from certain P/C insurers to assess the potential for major disruptions of the private insurance coverages in the U.S. market. She said the NAIC sent a letter expressing disappointment that the FIO did not engage state insurance regulators in a credible exercise to identify data elements gathered by either the regulatory community or industry that is indicative of climate risk. She said the NAIC letter expressed a willingness to work with the FIO on this issue.

Oppenheim said President Joe Biden’s budget plan calls for significant investments in clean energy and billions of dollars to help build community resilience to flood, wildfire, storms, extreme heat, and drought. She said the budget also calls for investment in green climate funds and loan guarantees; reasserting U.S. leadership in the Indo-Pacific region to finance energy, security, and infrastructure projects; and reducing reliance on volatile energy supplies.

Oppenheim said the NAIC continues to support the Disaster Mitigation and Tax Parity Act of 2021, which would ensure that state-based disaster mitigation grants receive the same federal tax exemption as federal mitigation grants.

Oppenheim said the NAIC is in dialogue with the Federal Deposit Insurance Corporation (FDIC) and the Federal Housing Finance Agency (FHFA) over concerns about coverage caps in the property insurance market in areas that are being affected by rising sea levels and increasing storms, floods, and wildfires.

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7. Heard a Presentation from the NAIC Catastrophe Modeling COE

Jeff Czajkowski (NAIC) said the Catastrophe Modeling Center of Excellence (COE) is fully operational and staffed with catastrophe risk modeling experts and resilience subject matter experts (SMEs), and they are integrated and well aligned with the catastrophe modeling community. He said the COE has several regulator-oriented tools and training, and they are engaged with individual departments of insurance (DOIs) and a number of NAIC committees.

Czajkowski said the goal of the COE is to provide the same level of technical expertise and tools to state insurance departments that the industry has at their disposal. He said they are implementing that goal through their three pillars of activity: 1) vendor models; 2) education and tools; and 3) applied research. He said the central coordination for the provided tools is the CAT COE SharePoint site, which is available for state insurance regulator access. He said the COE has entered into agreements with seven catastrophe modelers, and their information is accessible on the SharePoint site.

Czajkowski said in terms of education and training, the COE is expected to debut its Catastrophe Modeling 101 training in the spring of 2023. He said it also has access to the International Society of Catastrophe Managers training. He said the COE provides virtual and in-person training for state insurance departments on peril-specific catastrophe models.

Jennifer Gardner (NAIC) said the COE is developing tools to work in conjunction with the provided training. She said the COE has developed peril model cards that provide high-level summaries of models. She said the COE is developing a compendium of legislative and regulatory actions relative to catastrophe models. She said the COE is using catastrophe models to develop risk assessments.

Gardner said the COE is combining market insights from NAIC data with different risk assessments to focus on resilience and mitigation efforts.

Gardner said the COE has been bringing members of state insurance departments to the Insurance Institute for Business and Home Safety (IBHS) facilities to highlight wildfire risks and severe convective storm risks.

Gardner said the COE had the opportunity to involve a couple of states in a panel discussion at the National Disaster Resilience Conference hosted by the Federal Alliance for Safe Homes Inc. (FLASH). She said the organization was initiated by the insurance industry, and it does advocacy and awareness campaigns around risk reduction, flood losses, building code awareness, and hazard preparedness. She said the COE also hosted several state insurance regulators at the Reinsurance Association of America (RAA) Catastrophe Risk Management conference, where they spoke about earthquake risk, insurance market stability, and state resiliency initiatives.

Gardner said the COE is working with the Colorado Division of Insurance to identify potential resources that could be developed by Catastrophe model vendors to support risk assessment and regulatory initiatives.

Gardner said the COE is continuing to engage with NAIC working groups on catastrophe and mitigation matters, as well as engaging in discussions on support tools needed to stand up a mitigation grant program.

Commissioner Donelon said he endorses the important work of the COE and the training for state DOIs, and he said he encourages state insurance regulators to learn about the tools and training available.

8. Discussed Other Matters

Dave Snyder (American Property Casualty Insurance Association—APCIA) said he wanted to offer a future presentation from the Global Federation of Insurance Associations (GFIA), which has produced a report on global

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protection gaps and recommendations for bridging them. He said there is growing concern about political polarization that is leading to potentially undercutting diverse business models and time-tested regulation of the insurance markets by state insurance regulators.

Birny Birnbaum (Center for Economic Justice—CEJ) said there is a bill in the Texas legislature that would ban economic scenario generator (ESG) considerations, therefore banning climate risk consideration for state insurance regulators.

Amann said the Catastrophe Risk (C) Working Group is undergoing revisions to the Catastrophe Risk Primer, and it would invite participation from any states.

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

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