

Property and Casualty Insurance (C) Committee

Property and Casualty Insurance (C) Committee March 24, 2023, Minutes

Catastrophe Insurance (C) Working Group and NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group Mar. 21, 2023, Minutes (Attachment One)

Transparency and Readability of Consumer Information (C) Working Group Mar. 15, 2023, Minutes (Attachment Two)

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regulator refuses to conduct an examination of an RRG if requested, the nondomicile regulator has the authority to conduct its own examination of that RRG.

He said

required by the NPPA) is less than \$200 million nationwide in 40 years. Under the NAIC accreditation program, RRGs, like admitted carriers, must comply with the usual quarterly and annual filing requirements imposed on P/C insurance companies, including financial statements, RBC calculations, audited statements, and actuarial opinions.

He said the NPPA includes the following additional provisions, which would apply to RRGs that would be able to offer property insurance, as well as the liability insurance they already offer: 1) property can only be provided by an RRG to a 501(c)(3) nonprofit; 2) RRGs must have a minimum of \$20 million in surplus; 3) RRGs must have operated as a liability-only RRG for at least 10 years before offering property; 4) RRGs may only offer total insurable value (TIV) limits up to \$50 million to any member; and 5) RRGs may not begin writing property in a state where a regulator has posted the names of three admitted companies writing the monoline property half BOP and auto physical damage.

Reed said an RRG cannot easily become an admitted carrier because in the mid-1990s, Congress created a special tax law to allow 501(c)(3) nonprofit charitable insurers to have the same tax status and same transparency of the nonprofits they insure. He said RRGs have the same cost of capital as admitted carriers, and RRGs pay at least the same or higher premium tax. He said the surplus lines market is not a solution because the nonprofits being nonrenewed or denied coverage outright are not unusual or high risk. They do not have claims histories or risk profiles that would justify relegating them to surplus lines.

Reed said the NPPA lets the states decide if RRGs offering property should be part of the guarantee fund. He said a study of the problem would not produce useful information because there is nobody that can provide such data. He said nonprofits have shown that they can insure the far more challenging liability risks successfully through their own RRGs. Commercial carriers have abandoned nonprofits, nonrenewing thousands of them.

Acting Commissioner Humphreys said the data call Pennsylvania conducted was largely inconclusive. He said the major issues are the rate of the liability coverage going up fairly significantly and the availability of property coverage. He said whether property coverage is available is less conclusive, and a deeper look at the market would be valuable. Acting Commissioner Humphreys said Pennsylvania also reached out to nonprofits, and some of them did not have an issue with or have a need for property coverage. He noted some states make stand-alone property coverage available through an insurer of last resort. He also said foreign RRGs do not always respond to regulator requests for information.

Reed said small nonprofits cannot find the auto physical damage coverage they need. He said NIA has hired Guy Carpenter to look at whether auto physical damage is available to pair with the liability coverage through the RRG. He said state Fair Access to Insurance Requirements (FAIR) plans are not an economical solution for nonprofits.

Commissioner McVey asked whether the RRG had issues with a fronting carrier writing auto physical damage and whether they have tried to market the coverage on the basis of a national program. Reed said most of the nonprofits they work with have small amounts of property and, therefore, a small premium. He said NIA is working through brokers, and they have not found the auto physical damage coverage.

Commissioner Donelon asked whether the nonprofits are associations or those doing charitable work. Reed said the nonprofits they work with are mostly those that represent vulnerable classes of people. He said those types of organizations have the toughest time getting coverage.

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Andrew Pauley (National Association of Mutual Insurance Companies—NAMIC) said RRGs have played a role in providing insurance coverage since their inception. He said a tiny fraction of RRGs is seeking to expand its authority into property coverage by asserting there is a crisis in the market. He said NAMIC does not agree that there is a market crisis and an expansion of the LRRRA would be unnecessary and inappropriate, and it would place consumers at risk. He said NAMIC opposes the NPPA and has testified against it before Congress. He said the expansion would circumvent longstanding state insurance regulations and would create an unlevel regulatory playing field. He said the RRG regulatory regime is less rigorous and would put nonprofits at risk. Pauley said states have created more tailored and effective risk transfer mechanisms and alternative solutions.

Pauley said the LRRRA was passed in 1986 in response to a severe disruption in the commercial liability insurance market driven by litigation and oversized verdicts. He said there are nearly 2 million nonprofits in the U.S., and regulators are not seeing a demonstrable number of complaints in the marketplace. He said the NAIC has testified that there is not a crisis in the commercial property insurance market. He said NIA has said nonprofits may be at risk of losing coverage or struggle without adequate coverage, but this does not connote a lack of ability to get coverage.

Pauley said RRGs are not regulated in the same fashion as admitted carriers. RRGs write a majority of their coverage in non-domiciliary states. RRGs are not members of state guaranty funds and do not pay an assessment for any insurer failure. Pauley noted there are inherent advantages to being an RRG. He noted that outside of their domiciliary state, RRGs are not subject to financial examinations unless the domiciliary state has refused to examine the RRG. The question should not be whether the regulatory scheme is sufficient but whether it meets the rigorous standards of state-based regulation for admitted carriers.

Pauley said traditional admitted carriers do offer small and medium-sized nonprofits coverage in the form of BOPs with commercial liability and property coverage. He said manuscript policies are also available. Bundled products are indicative of good risk management and are good for the policyholder. Pauley said simply because there would be a preference for RRGs to underwrite these additional risks does not create a crisis. He said NAMIC members must make operational tradeoffs daily to compete in a highly competitive market within existing regulatory guardrails. He said RRGs can become admitted carriers.

Acting Commissioner Humphreys asked if Pauley could provide the Committee with a list of 10 companies that will write stand-alone businessowners coverage and stand-alone auto physical damage coverage. Pauley said the question allows RRGs to frame the playing field because RRGs would prefer to write the property and liability at the same time, but the admitted market is able to do that. Acting Commissioner Humphreys said he would like to see a list of insurers that write stand-alone coverage for small and medium-sized companies. Pauley said products can be found but are often bundled. Acting Commissioner Humphreys said nonprofits can currently buy the liability coverage due to the LRRRA, so the Committee might wish to look further into the issue to see what is available in the market.

5. Heard from States and the NAIC About Data Sources and Uses

Commissioner McClain said the Committee has a charge to assist state insurance regulators in better assessing their markets by developing property market data intelligence. He said the previous issue looking at the availability of coverage for nonprofits exemplifies the fact that often regulators do not have readily available market data. He also noted that North Dakota recently undertook a pilot where it used blockchain technology to measure the uninsured motorist population.

Commissioner Yaworsky said Florida has a number of data collection techniques and tools it uses to be responsive to market challenges. He said a 2021 statute allows for a property claims reporting tool that collects annual data on all claims that have been closed in the prior calendar year, including the entire life cycle of the claim. He said it

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includes the number and type of the policy, the ZIP code of the policy and property, names of vendors used, and dates of claims reported and closed with or without payment. He said this allows Florida to inform policymakers and consumers about trends within the market. The data allows for the identification of trends that may need to be addressed through regulatory action or legislation. He said the first set of data was due on March 1 and that aggregated reports will be released soon.

Commissioner Yaworsky said the annual reinsurance data call allows the Department of Insurance (DOI) to evaluate the adequacy of reinsurance. He said reinsurance data is paired with the capacity stress test to model catastrophe scenarios.

Commissioner Yaworsky said two catastrophe reporting forms are used to track claims-handling experience following hurricanes. The first is more basic and is immediately implemented after a storm. The second, more enhanced survey, measures how quickly claims are closed, whether they are closed without payment, and reasons for nonpayment.

LeDuc said Missouri receives data through text files or through an online submission portal. She said Missouri has a statistical unit dedicated to the data process. She said the state publishes a number of public statistical reports on various lines of business.

LeDuc said an Annual Statement, Page 19 Supplement is based on the State Page but collects at a much more granular level. The private passenger auto (PPA) data is divided between comprehensive and collision.

LeDuc said Missouri has also collected ZIP code data since 1987 for homeowners and auto and other lines since the 1990s. The data call is collected via a statutory requirement, and the data includes premium, exposure, and loss data at a ZIP code level. The data is also broken out by policy type and type of loss and is broken out by insured value ranges.

LeDuc said Missouri creates maps by ZIP code level showing the cost of auto insurance compared to uninsured motorists. Missouri has also created maps showing the number of auto insurance agents per capita to indicate availability. LeDuc said the state publishes reports showing trends related to the type of losses. She also noted Missouri is able to measure average premiums and take-up rates related to earthquake insurance in order to determine why certain counties may be underinsured.

Aaron Brandenburg (NAIC) said the NAIC has assisted states with a number of data calls in recent years. He said states collected ZIP code-level auto insurance data from statistical agents in 2019. This was only aggregated data. He said it allowed a comparison of premiums and losses to demographic data in each ZIP code, and a public report was published in 2020.

Brandenburg said in response to the COVID-19 pandemic, nearly all states issued a data call related to business interruption insurance in 2020. The data was collected through the NAIC's Regulatory Data Collection (RDC) system. The data call collected premium data by size of the policyholder, and it collected claims information on an ongoing basis from insurers. The NAIC aggregated the data and issued reports on its website, which has been helpful in understanding the size of this market and what business interruption claims looked like throughout the pandemic.

The NAIC issued an all-state data call in 2020 to collect 2018 and 2019 private flood insurance data. The data split coverages between commercial and residential, and it collected the number of policies and claims. It was transitioned to the annual statement in 2021. The data is presented through a tool on the NAIC's website so states can better understand the growth of the private flood market. Individual insurer data is reported as well.

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Catastrophe Insurance (C) Working Group
and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group
Louisville, Kentucky
March 21, 2023

The Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Working Group met in Louisville, KY, March 21, 2023, in joint session with the NAIC/FEMA (C) Advisory Group of the Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee. The following Working Group members participated: Chlora Lindley-Myers, Chair, represented by Cynthia Amann, Christina Dooley, Teresa Kroll, and Jo LeDuc (MO); Mike Causey, Vice Chair (NC); Kayla Erickson, Sian Ng-Ashcraft, and Shauna Nickel (AK); Brian Powell and Erick Wright (AL); Alan McClain (AR); Ken Allen, Lucy Jabourian, Michelle Lo, Opie Oyewole, Kathryn Taras, and Lynne Wehmueller (CA); George Bradner and Philip Barrett (CT); Dan Applegarth (FL); Zachary Fuentes, Lance Hirano, and Gordon I. Ito (HI); Travis Grassel (IA); Chris Hollenbeck, Jessica Lillibridge, and Levi Nwasoria (KS); James J. Donelon (LA); Jackie Horigan (MA); Joy Hatchette (MD); Andy Case (MS); Jesse Kolodin (NJ); Margaret Pena and Melissa Robertson (NM); Caleb Gruenbaum, Laura Miller, Maureen Motter, and Karen Vourvopoulos (OH); Glen Mulready (OK); Michael Drummonds and Carolyn Kalb (OR); David Buono (PA); Glorimar Santiago (PR); Beth Vollucci (RI); Lindsay Chaffin and Dominic Rovelli (SC); Tony Dorschner (SD); Carter Lawrence (TN); Marianne Baker, J'ne Byckovski, Nicole Elliott, Eric Hintikka, Taryn Lam, Shawn Martin, Elisabeth Ret, and Matthew Richard (TX); and David Forte and Matt Stoutenberg (WA). The following Advisory Group members participated: Glen Mulready, Chair (OK); Carter Lawrence, Vice Chair (TN); Kayla Erickson, Sian Ng-Ashcraft, and Shauna Nickel (AK); Brian Powell and Erick Wright (AL); Ken Allen, Lucy Jabourian, Michelle Lo, Opie Oyewole, Kathryn Taras, and Lynne Wehmueller (CA); George Bradner and Philip Barrett (CT); Dan Applegarth (FL); Patrick O'Connor (IN); Chris Hollenbeck, Jessica Lillibridge, and Levi Nwasoria (KS); James J. Donelon (LA); Joy Hatchette (MD); Cynthia Amann, Christina Dooley, Teresa Kroll, and Jo LeDuc (MO); Margaret Pena and Melissa Robertson (NM); Michael Drummonds and Carolyn Kalb (OR); Dan Bumpus, William Christian, Rebecca Nichols, Marly Santoro, and Garth Shipman (VA); and David Forte and Matt Stoutenberg (WA). Also participating were: Linda Grant (IN); Paige Dickerson (MI); Phil Vigliaturo (MN); Fred Fuller and Timothy Johnson (NC); Kelly Christensen and Tracy Klausmeier (UT); Vanessa Richards (VI); Michael Erdman and Christina Keeley (WI); and Tracy McEwen and Lela Ladd (WY).

1. Adopted its 2022 Fall National Meeting Minutes

Bradner made a motion, seconded by Buono, to adopt the Working Group's Dec. 12, 2022, minutes (*see NAIC Proceedings – Fall 2022, Property and Casualty Insurance (C) Committee, Attachment Two*). The motion passed unanimously.

2. Heard an Update on Federal Legislation

Shana Oppenheim (NAIC) provided an update on federal legislation. The National Flood Insurance Program's (NFIP's) latest extension expires Sept. 30. FEMA recently released data showing a 36% decline in the number of reinsurers participating in the NFIP's reinsurance program as compared to the prior year. According to FEMA, the NFIP's traditional reinsurance placement is indicative of a hard market condition in the catastrophe space and the challenges of securing coverage. Such a decline could also suggest that some notable insurers decided not to write NFIP policies this year or were reluctant to offer these policies at the necessary pricing level.

On March 10, the U.S. House of Representatives (House) Financial Services Subcommittee on Housing and Insurance, led by Chairman Warren Davidson (R-OH), held a hearing entitled, “How Do We Encourage Greater Flood Insurance Coverage in America?”

Republicans were focused on encouraging the private flood insurance market uptake, especially in regions outside of the flood maps, where they believe 20% of floods are occurring. They also expressed interest in examining federal regulatory barriers to private flood insurance. The Democrats wanted a bipartisan, long-term NFIP reauthorization. Notably, the NFIP has had 25 short-term reauthorizations since 2017. Democrats also focused on flood as not just a financial or insurance industry issue, but as an equity, diversity, and inclusion industry issue, as well as encouraging private flood insurance.

U.S. Sen. John Kennedy (R-LA) and U.S. Rep. Blaine Luetkemeyer (R-MO) have introduced bills tackling Risk Rating 2.0 flood insurance affordability and reauthorization.

3. Received an Update on the Primer Progress

Amann provided an update on the *Catastrophe Modeling Primer* (Primer). The Primer will replace the NAIC’s *Catastrophe Computer Modeling Handbook*. The drafting group has met several times and continues to make progress. Sections that are currently drafted include: 1) Purpose of the Primer; 2) Background Information on Catastrophe Modeling; 3) What is a Catastrophe Model?; 4) Why Use a Catastrophe Model?; 5) Model Components; 6) Key Metrics; and 7) Regulator’s Perspectives.

Amann said the Primer is meant to be a regulatory tool to help state insurance regulators understand catastrophe modeling.

The drafting group will meet following the Spring National Meeting to continue its drafting work.

4. Heard Updates Regarding the Activities of State and FEMA Regional Workshops

Commissioner Mulready provided updates on the activities of the state and regional FEMA workshops. FEMA Region 1 will meet in Maynard, MA, on the afternoon of May 22 and all day on May 23. Virtual participation will be available for anyone in FEMA Regions 2 or 3 who would like to see how these meetings are conducted, as well as the topics covered. These regions will hold in-person workshops later.

The purpose of these NAIC/FEMA workshops is to help departments of insurance (DOIs) form relationships with their FEMA partners. Oklahoma hosted a workshop for FEMA Region 6 last year and found it to be helpful.

5. Heard a Presentation from the Midland Radio Corporation on the NWR

Bruce Jones (Midland Radio Corporation) said the National Oceanic and Atmospheric Administration (NOAA) Weather Radio (NWR) is essentially an indoor tornado siren. The National Weather Service (NWS) started a Weather-Ready Nation Ambassador program. Currently, there are 16,000 Weather-Ready Nation (WRN) Ambassadors. These WRN Ambassadors include businesses, churches, and other groups. The WRN Ambassadors are required to have a plan in place for their organization and staff, including identifying safe places in case of a weather-related event. WRN Ambassadors also teach their staff the principles of weather safety.

Jones said to become a WRN Ambassador, a business or other group can contact their local NWS office and volunteer to become a WRN Ambassador to promote weather safety, preparedness, and resiliency. Every state has a weather awareness week. State insurance regulators could send out a message during the designated week that illustrates weather preparedness.

Jones said one of the main messages from the NWS is that everyone needs to have multiple and redundant ways to receive lifesaving alerts. The NWS is the best in the world at alerting people to severe weather. The six ways you can receive a warning include: 1) the NWR; 2) local television and radio; 3) wireless emergency alerts and weather apps; 4) outdoor sirens; 5) the *mobile.weather.gov* website; and 6) from your friends, family, and neighbors.

Outdoor warning sirens were created in the 1950s and 1960s, and they could be heard when people had their windows open in the spring and summer. Warning sirens are not meant to be heard inside and wake people up. Hearing a tornado siren is a signal to get indoors and seek additional information. When warning sirens stop, it does not mean the severe weather threat is over. Additionally, the outdoor warning sirens are activated by city or county officials and not the NWS.

If a cell phone tower is destroyed your cell phone will not be able to provide an alert to you. The NWR network is made up of over 1,000 transmitters that send a signal to 95% of the U.S. population. The weather radio is the quickest and most direct way to receive alerts, as the alert goes to the NWR first. The order of alerts are as follows: 1) the NWR; 2) the emergency alert system, which includes television and radio stations; 3) cell phone or wireless emergency alerts; and 4) emergency managers who then send out reverse 911 phone calls or set off their outdoor sirens. The average tornado warning lead time for the NWS is 13 minutes if it receives the warning.

FEMA's Hazard Mitigation Grant Program (HMGP) normally covers up to 75% of the cost of weather radios; however, this year, the HMGP covers 90%. The money is given to states in the aftermath of any presidentially declared disaster, and any county in the state can apply for some of this money regardless of whether their county was included in a weather disaster. The grant must be applied for by the state's emergency management agency. State insurance regulators can remind their emergency management agencies of the HMGP grant and encourage them to apply for it.

Commissioner Mulready asked how long a state has to apply for an HMGP grant. Jones said he believes a state has two years following the presidentially declared disaster to apply for the grant. The state emergency managers control the money and pass it out. Some of the money is also used to build public storm shelters.

Grassel asked if alerts on a cell phone from the NWS are received as quickly as by weather radio. Jones said there has been a failure of the alerting system on cell phones and reverse 911 calls in the past; however, the NWR stayed on the air.

Grassel said in Iowa, it is often challenging to know when a tornado is going to hit. He asked if there is a way to adjust the areas in which the weather radio provides warnings. Jones said the weather radio can be adjusted to just receive a warning pertaining to a particular county or even parts of a county.

6. Held a Panel Discussion on Personal Lines Deductible Trends

Amann said prior to the 2022 Fall National Meeting, the NAIC sent a survey to the states regarding deductibles for homeowners insurance. The Working Group received survey responses from 30 states. Almost half (45%) of the 30 states answering the survey indicated that they are seeing separate roof deductibles in their state. The survey also indicated that at least four non-coastal states are seeing the use of percentage deductibles in their state. While these states are not directly tracking this information, they are noticing an uptick in their complaint data.

Due to the increased severity of storms, the Working Group heard a panel discussion on personal lines homeowners deductible trends due to deductible changes states are seeing. The property/casualty (P/C) market is hardening, causing impacts across all lines of business; however, the focus of the panel was on homeowners insurance. Amann asked the Working Group to think about the impacts across all lines of insurance, including health insurance.

The panel included Amann as moderator, Amy Bach (United Policyholders—UP), David F. Snyder (American Property Casualty Insurance Association—APCIA), and Julia Dreier (MN).

Snyder said the APCIA appreciates the concerns that consumers and state insurance regulators have, as well as the concerns of the insurers the APCIA represents. The term “polycrisis” is defined as a simultaneous occurrence of several catastrophic events, which has been occurring in the U.S.

Snyder indicated that one negative factor includes inflation, which has increased the cost of materials and labor needed to reconstruct homes and businesses. Costs have remained elevated since the beginning of the COVID-19 pandemic. The price of construction materials for a single-family residential home rose by 33.9%. Snyder said the APCIA has seen the deterioration of the combined ratio, as well as an increase in the cost of capital.

Snyder said a second negative factor is made up of natural catastrophe losses and costs. 2022 was the eighth year in a row that the U.S. suffered at least 10 catastrophes causing over \$1 billion in losses. Natural disaster losses from 2020 through 2022 in the U.S. exceeded \$275 billion. Additionally, the U.S. incurred 75% of the global insured losses in 2022. Costs rise from the incidents themselves, as well as the patterns of development and the related costs to deliver the benefits.

Snyder indicated that a third negative factor involves the hardening of the reinsurance market and political polarization.

Snyder said deductibles have been around in one form or another for decades. Deductibles are intended to do two things: 1) provide consumers the ability to manage their risks in a way that works best for them; and 2) make the risk more manageable from the perspective of the insurance industry. Deductibles are currently changing, as they have in the past. It is a competitive market in which each insurer is trying to manage its risks. Snyder said state insurance regulators must decide the appropriateness of the various types of deductibles.

Snyder reiterated that the purpose of the deductibles is, first and foremost, to allow consumers more choice in their ability to manage risk while also providing the insurer the ability to manage its risk while maintaining solvency.

Bach said UP is a national consumer group that does a lot of education and recovery support. Insurance is intended to indemnify the policyholder in the event of a loss. Bach mentioned that the use of percentage deductibles, split deductibles, hail deductibles, etc. brings about a complexity that is challenging for consumers.

Bach said UP was formed because many people who had earthquake damage following the 1989 Loma Prieta, CA, earthquake received estimates that fell just below the \$10,000 deductible and, therefore, did not receive any money toward their loss. She said in the past, consumer advocates advised consumers that the best way to lower the cost of an insurance policy is to increase the deductible. However, that advice was based on the deductible being a flat deductible. However, with percentage deductibles, there is a calculation involved that consumers do not always understand.

Bach said she could understand that insurers see the percentage deductible as risk-sharing, but she does not believe consumers think of it in this way. She indicated that there are at least 19 states with percentage deductibles. She said it is now difficult to tell consumers to increase their deductible to try and save money, as some policyholders are seeing multiple deductibles. For example, they see one for the roof and one for the home.

Dreier said in 2022, Minnesota was hit by six weather disasters exceeding \$1 billion in property damage. Minnesota ranked third in the nation last year for reports of severe hail, following behind only Texas and Nebraska. Dreier said Minnesota has seen an unprecedented number of rate increases, as they have already seen close to 30 rate increases over 25% this year, keeping in mind that we are only three months into 2023. Since 2020, Minnesota has seen a 55% increase in homeowners insurance complaints. Many of these complaints are from policyholders who are concerned about coverage, denials, and unexpectedly high out-of-pocket costs following damage, particularly from wind and hailstorms.

Dreier said the DOI wants to determine how it can lower overall costs. Borrowing a phrase used by Wisconsin, she said it is cheaper to pre-cover than recover from storm damage. She said Minnesota is proposing to strengthen homes in the state by reducing risk exposure through mitigation. She said Minnesota's proposal would couple grants to retrofit homes with premium reductions and homeowners insurance. This program would require grant recipients to work with contractors trained in the fortified standards, which are based on research by the Insurance Institute for Business and Home Safety (IBHS).

Dreier said Minnesota is also considering the best way to ensure its consumers understand what their policies mean and say, providing an opportunity to work with consumer groups and the insurance industry.

Amann asked Bach what UP is seeing from the consumers' perspective regarding the understanding of their deductibles. She said the American Academy of Actuaries (Academy) recently released a paper about the math of deductibles. The paper addresses deductibles across all lines of business. Bach said consumers have a difficult time understanding deductibles, especially percentage deductibles. She said when a consumer reads an insurance policy, there are many footnotes regarding what will be covered and how much a policyholder will be paid.

Amann said consumers also do not understand that basic maintenance is the responsibility of the policyholder. For example, a policyholder is not going to get a roof replaced just because there was a hailstorm. There may be a problem with the roof.

Amann asked if there is more that needs to be done to help a policyholder understand their insurance policy or if it is sufficient to just tell the policyholder to read their policy and/or declarations page to understand their coverage.

Bach said while she understands the reasoning of the insurer, it is not sufficient to tell the policyholder to read their policy to know what is covered. She believes that oftentimes, at renewal, policyholders are seeing premium

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increases and are looking for ways to save money on their premiums. She said policyholders do not always understand what will be paid in the event of a loss. She said percentage deductibles are more difficult for consumers to understand than flat deductibles. Bach said insurers have more advanced technology to ascertain the condition of homes than they had in the past, and she is seeing more focus on the condition of the home during claim settlement. She said UP is hearing a lot of reports of insurers denying claims on the basis of wear and tear. She said additionally, insurers have been taking a hard line on the time between when a policyholder observes damage and when they report the damage when deciding if they will pay a claim.

Dreier said the reasons behind implementing building codes are to help buildings better weather storms and minimize the overall risk for individuals. She said Minnesota's proposal would hopefully provide for lower premiums overall, as well as less damage.

Snyder said he believes everyone is struggling with the general public's perception of risk. It is difficult for the government to get the public focused on risk, a challenge for insurers to explain risk and urge consumers to purchase the right type of coverage, and a challenge for consumers to understand the insurance they purchase. The purchase of insurance is not a simple purchase. A policyholder's home includes a variety of variables, such as a roof; a heating, ventilation, and air conditioning (HVAC) system; siding; where the home is located; etc. Snyder said the question is how insurers can assist consumers in understanding all the variables and make intelligent decisions regarding the best coverage the consumer can afford.

Snyder said he believes insurers are providing good descriptions of deductibles for consumers. He said consumers must want to read the descriptions and better understand the insurance product. He suggested that state insurance regulators work with consumer advocates to come up with questions consumers ought to ask when purchasing a homeowners policy. The NAIC has worked on a *Homeowners Shopping Tool* that provides questions for a homeowner to ask when purchasing a policy. This tool likely needs to be updated with some questions added regarding the understanding of deductibles.

Snyder said there have been changes in the weather that are causing increased volatility, as well as developing homes and businesses in areas that should not have been developed. He said the APCI produced a paper indicating that there are gaps in consumer understanding, and the more complex the product, the more gaps will exist.

Amann asked Dreier if consumers understand a roof claim due to a storm versus a catastrophic event. Dreier said she believes consumers understand more than we give them credit for in many cases. She said as a state insurance regulator, she thinks about what a DOI can do to make sure information is easily accessible to the consumer to inform them about what they are buying and how to best use their insurance coverage. She said this is a difficult task because there is so much variability in the market. She said some consumers understand, and others do not.

Amann asked Bach if she believes there are ways to improve the process of informing the consumer regarding the dollar amount they are ultimately responsible for paying. Bach said high deductibles, multiple deductibles, and percentage deductibles have created more confusion. She said it is still part of UP's standard outreach to make informed decisions and tell consumers to think about their funding plans for repairs that will not be covered if they choose to increase their deductibles.

Bach said she would like to understand more about why insurers are more inclined to raise deductibles than to cap coverage like the NFIP and guaranty associations do. She asked why policyholders are not just told the highest

dollar amount the property will be insured for in case of a loss instead of cutting the coverage out on the lower end if the bigger concern is the exposure and these are catastrophic claims.

Snyder said he believes insurers try to tailor the coverage and compete in the market in the best way they can. He said they are not all going to do things the same way. He said he believes insurers see the deductible changes giving them the ability to offer some coverage. He said it is a way for insurers to stay in the market and push toward more high-end coverage, more of what is called the expensive early lower dollars, which is the amount the consumer picks up.

Amann asked how a DOI can encourage insurers to either write more coverage or modify the coverage they offer. Dreier said there is no magic bullet, but she believes the difference being seen in many cases is an effort by several insurers to try and make a product that is more affordable and usable for policyholders.

Commissioner Donelon said he tells consumers to self-insure for whatever they can afford. He said Citizens had a 2% named storm deductible in Louisiana in 2008 after Hurricane Katrina. When Hurricane Gustav went through Baton Rouge, LA, which had been spared by Hurricanes Katrina and Rita, many of the homeowners were not aware that they had the 2% deductible. Insurers then raised deductibles from 2% to 3% to 5%. As the deductibles grew, coverage shrunk. Commissioner Donelon said the deductible is a vehicle around the limitation Louisiana has on insurers from coming and going on coastal exposure and other exposures they no longer want to cover. He encouraged insurers not to use the split roof deductible because when you are pricing out repairs, this adds more math confusion.

Commissioner Lawrence asked Bach if it would help if the stated amount of the percentage deductible is put on the declarations page if the math is what is confusing the policyholders. Bach said she believes this is important because the policyholder will know the amount of money they will have to pay out of pocket in the event of a claim. She said insurers have always used the argument that a deductible is put into place to help eliminate fraud. She said risk-sharing is having a deductible where the policyholder has a pre-defined deductible, such as \$5,000. Risk-shifting is when most of the losses a policyholder experiences are paid by the policyholder, which she believes is occurring with high percentage deductibles, etc. She said she believes collaborative work amongst the state insurance regulators, such as work resulting in a model law, is timely and required.

Snyder said the market is different today than it was 20 years ago. There have been negative effects from inflation, weather volatility, weather patterns, etc. Some of these negative effects are due to not having up-to-date building codes, and others are due to weather volatility. Snyder said insurers want to sell insurance and take on risk, but they also must manage the risk to maintain their own solvency. Insurers are managing risk in different ways. Snyder said he believes the insurance industry and state insurance regulators need to work together to figure out how to help consumers better understand their risk and what actions to take to reduce risk.

Commissioner Lawrence asked Bach about claims being denied due to the duration of time that passes before a claim is filed. He asked if that is happening within the policy's duration. Bach said she was referring to insurers saying the damage was due to deferred maintenance. An example of this would be an insurer saying the policyholder should have known to take a tree down. Bach said insurers have more technology available now; therefore, they know the condition of a property prior to a claim being filed. She said there are more losses denied due to deferred maintenance, and these losses are not viewed as sudden and accidental.

Nwasoria asked if there is a way state insurance regulators can work with insurers to provide a premium reduction for policyholders that have brought their property up to the current code. Dreier said the insurance community

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Attachment One
Property and Casualty Insurance (C) Committee
3/24/23

in Minnesota has been engaging in conversations with the DOI regarding premium reductions for mitigation. Snyder believes progress is being made, as there is more community engagement

Nwasoria asked if there is a way to get insurers to visit a home and inform the property owner of the things they can do to improve the insurability of their property. Snyder said he believes improvements in technology, such as the use of drones, may offer a way to make this happen. Bach said there are some important NAIC workstreams looking at ways to provide policyholders with incentives to mitigate damage.

Commissioner Lawrence asked how lenders felt about high deductibles and percentage deductibles. Bach said UP has been working with the Federal National Mortgage Association (FNMA) on a project to improve options for insuring manufactured homes. UP has had conversations with the Federal Reserve Bank about its concern regarding collateral not being insured to replacement value due to the new exclusions they are seeing, as well as higher deductibles. Bach believes the Federal Insurance Office (FIO) is trying to conduct a data call due to the collateral issue.

Amann reminded the Working Group that there are several other NAIC working groups, task forces, and committees experiencing overlap concerning the issues discussed in the panel.

7. Discussed Other Matters

Amann asked Working Group members to contact NAIC staff if they wish to see the homeowners survey results.

Amann said in October, Missouri will be hosting the Earthquake Summit tentatively scheduled to be held in St. Louis, MO. There will be seismic experts, disaster preparedness, and response teams presenting at the Summit

Having no further business, the Catastrophe Insurance (C) Working Group and the NAIC/FEMA (C) Advisory Group adjourned.

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