JOINT MEETING OF THE CATASTROPHE INSURANCE (C) WORKING GROUP
AND THE NAIC/FEDERAL EMERGENCY MANAGEMENT AGENDA (FEMA) (C) ADVISORY GROUP
Monday, April 4, 2022
3:30 – 5:00 p.m.
Loews Kansas City Hotel—City Beautiful D—Ballroom Level

CATASTROPHE INSURANCE (C) WORKING GROUP

David Altmaier, Chair Florida Mike Chaney Mississippi
Mike Causey, Vice Chair North Carolina Jo LeDuc Missouri
Jimmy Gunn/Brian Powell Alabama Carl Sornson New Jersey
Katie Hegland Alaska Tom Botsko Ohio
Jimmy Harris Arkansas Cuc Nguyen Oklahoma
Lucy Jabourian/Lynne Wehmueller California David Dahl/Ying Liu/Raven Collins Oregon
George Bradner Connecticu David Buono Pennsylvania
Colin M. Hayashida/Connecticut Glorimar Santiago Puerto Rico
Kathleen Nakasone Hawaii Beth Vollucci Rhode Island
Judy Mottar Illinois Will Davis South Carolina
Travis Grassel Iowa Vickie Trice Tennessee
Julie Holmes Kansas Mark Worman/J’ne Byckovski Texas
James J. Donelon Louisiana Bryon Welch Washington
Joy Hatchette Maryland Allan L. McVey West Virginia
Jerry Condon/Matthew Mancini Massachusetts

NAIC Support Staff: Sara Robben

NAIC/FEMA (C) ADVISORY GROUP

Glen Mulready, Chair Oklahoma James J. Donelon Louisiana
Carter Lawrence, Vice Chair Tennessee Joy Hatchette Maryland
Brian Powell Alabama Jo LeDuc Missouri
Shauna Nickel Alaska Alex Cheng Oregon
Lucy Jabourian/Connecticut Elizabeth Kelleher Dwyer/Raven Collins Rhode Island
Deborah Halberstadt California Beth Vollucci
George Bradner Florida Larry D. Deiter South Dakota
Susanne Murphy Indiana Marly Santoro Virginia
Amy L. Bearn Iowa Matt Stoutenburg Washington
Travis Grassel Kansas Allan L. McVey West Virginia
Julie Holmes

NAIC Support Staff: Aaron Brandenburg/Sara Robben
AGENDA

1. Consider Adoption of the March 4 Minutes of the Catastrophe Insurance (C) Working Group and the March 25 Minutes of the NAIC/FEMA (C) Advisory Group—Commissioner David Altmaier (FL)

2. Hear an Update on Federal Legislation—Patrick Celestine (NAIC)

3. Discuss Catastrophe Modeling Handbook Updates
   —Commissioner David Altmaier (FL)

4. Hear an Update from the Iowa Department of Insurance (DOI) on Recent Tornadoes—Travis Grassel (IA)

5. Hear an Update from the Tennessee DOI on Recent Catastrophic Events
   —Commissioner Carter Lawrence (TN)

6. Hear an Overview of FEMA Regional Meetings
   —Commissioner Glen Mulready (OK)

7. Receive an Update on the NAIC Catastrophe Resource Center
   —Sara Robben (NAIC)

8. Discuss Any Other Matters Brought Before the Working Group
   —Commissioner David Altmaier (FL)

9. Adjournment
Catastrophe Insurance (C) Working Group
Virtual Meeting
March 4, 2022

The Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met March 4, 2022. The following Working Group members participated: David Altmaier, Chair, Alexis Bakofsky and Susanne Murphy (FL); Timothy Johnson, Vice Chair (NC); Shauna Nickel and Katie Hegland (AK); Jimmy Gunn and Brian Powell (AL); Jimmy Harris (AR); Ken Allen, Lucy Jabourian, Giovanni Muzzarelli, Lisbeth Landsman-Smith, and Lynne Wehmueller (CA); George Bradner and Wanchin Chou (CT); Colin M. Hayashida and Roland Teruya (HI); Travis Grassel (IA); Judy Mottar (IL); Tate Flott, Brenda Johnson, and Julie Holmes (KS); James J. Donelon and Warren Byrd (LA); Caleb Huntington and Matthew Mancini (MA); Robert Baron, Ronald Coleman, Walter Dabrowski, and (MD); Cynthia Amann and Jo LeDuc (MO); Cuc Nguyen and Andrew Schallhorn (OK); Ying Liu (OR); David Buono (PA); Elizabeth Kelleher Dwyer, Segun Daramola, and Beth Vollucci (RI); Stephanie Cope and Vickie Trice (TN); and Marianne Baker, J’ne Byckovski, and Mark Worman (TX). Also participating were: Linda Grant (IN); Sandra Anderson (MN); Chris Aufenthie (ND); Gennady Stolyarov (NV); and Mary Block and Isabelle Turpin Keiser (VT).

1. **Adopted its 2021 Fall National Meeting Minutes**

   Commissioner Hayashida made a motion, seconded by Mr. Grassel, to adopt the Working Group’s Dec. 12, 2021, minutes (see NAIC Proceedings – Fall 2021, Property and Casualty Insurance (C) Committee, Attachment Three). The motion passed unanimously.

2. **Heard a Presentation Regarding a Survey to States About the Catastrophe Modeling Handbook**

   Sara Robben (NAIC) said a survey regarding the NAIC Catastrophe Modeling Handbook (Handbook) was sent out to states late last year. The purpose of the questionnaire was to help aid the Working Group in determining what information to include in the Handbook to make it a useful tool for state insurance regulators. Ms. Robben said 22 states responded to the survey.

   The survey results indicated that 20 of the 22 states responding to the survey indicated that it would be helpful to add information on more perils. Currently, the Handbook includes the perils of earthquake and hurricane. The survey indicated that states would like to see the perils of flood; wildfire; convective storms; and other perils like cyber, terrorism, and winter storms in this order.

   The survey asked states if they had any state-specific filing requirements for catastrophe models. Seven of the 22 states responding indicated that they had specific requirements. This included some states having regulations and others issuing bulletins. Some states allow catastrophe models only for specific perils and have specific requirements.

   The survey asked each state if they coordinated with any other state regarding catastrophe models. Three of the states surveyed said they coordinate with other states regarding the use of catastrophe models, and 19 indicated that they do not coordinate with other states. Comments included:

   - If the state is aware of another state having the same or a similar model filed, it will contact that state.
   - A state used an actuarial firm for its 2020–2021 model review that subcontracted with experts who routinely work with the Florida Commission on Hurricane Loss Projection Methodology.
A state indicated that it works with other states in the Northeast Zone.

The survey asked each state the percentage of rate filings received that referenced a catastrophe model. Seventeen states indicated 0–25%, four states indicated 25–50%, and one state indicated 75–100%. Most of the states fall into the 0–25% category.

The survey also asked questions regarding the number of staff and amount of time staff spent on reviewing filings referencing a catastrophe model. These numbers correlated with the percentage of filings.

The survey asked if states used any tools in evaluating a catastrophe model. Three of the 22 states indicated that they used tools for evaluating a catastrophe model. These tools included the use of outside actuarial consulting firms, a standard support checklist, and the Florida Commission on Hurricane Loss Projection Methodology.

The survey indicated that three of the 22 states utilize the Handbook; however, several states indicated that they were not aware of the Handbook’s existence. The three states that utilize the Handbook indicated that they use it as a reference guide or to better understand how such modeling might be occurring and how it might be a part of a rate filing.

The survey asked if the following sections would be helpful to state insurance regulators:

- Section 3: General Overview of Catastrophe Models
- Section 4: Model Input Provided by Company
- Section 5: Model Output
- Section 6: Model Validation and Update

Twenty-one of the 22 states surveyed indicated that all these sections would be helpful.

The survey asked states if they used the questions in Section 7 of the Handbook when evaluating filings for catastrophe models. Eight states indicated that they use the questions, and five states indicated that they use some of the questions but not all of them.

The survey indicated that state insurance regulators would like to see the following tools:

- A set of questions for financial examiners.
- A set of questions for reviewers.
- A set of questions to understand the impact of climate risk on the insurer.
- A standard support checklist and to be able to send models to an NAIC review team, as needed.

Ms. Robben asked that any state that still wants to fill out the survey reach out to her for a link.

Mr. Chou asked which state answered 75–100% regarding rate filings referencing a catastrophe model. Ms. Robben said she would have to go back to the survey to see which state answered 75–100%. Since this meeting, the state that indicated the 75–100% reached out to the NAIC and said this was reported in error. Ms. Robben also said she would create a matrix of state answers for Working Group members.
3. **Discussed Next Steps Regarding the *Catastrophe Modeling Handbook***

Commissioner Altmaier said the survey responses indicated that the Handbook was not being used by many states. He said it was notable that not all state insurance regulators were aware of the existence of the Handbook. He said not only is this a timely opportunity to update the Handbook, but it is also an opportunity to raise awareness about the Handbook. Catastrophe events have grown in number and size, and there will likely be an increased use of catastrophe models, if not for ratemaking, in Own Risk and Solvency Assessments (ORSAs) and other tools.

Currently, the Handbook includes the following sections:

- Purpose and Background
- Selected Catastrophe Perils (Earthquake and Hurricane)
- A General Overview of Catastrophe Models
- Model Input Provided by Company
- Model Output
- Model Validation and Update
- Evaluating Models
- Regulatory Review and Acceptance
- Related Activities, Activities to Consider

Commissioner Altmaier said he believes everyone is aware of the establishment of a catastrophe model center of excellence (COE). He said while the COE has not yet been adopted, if adopted, its role would be to:

- Facilitate insurance department access to catastrophe modeling documentation and assistance distilling the information.
- Provide general technical education/training materials on the mechanics of commercial models and treatment of perils and risk exposures.
- Conducting applied research analysis utilizing various model platforms to proactively answer the regulatory “so what” questions that may need to be addressed for regulatory resilience priorities.

Commissioner Altmaier said it is important to note that the support services anticipated to be offered through the COE are not going to take the place of individual state department of insurance (DOI) activities involving catastrophe models. He said for example, the COE would not be approving vendor models and items of that nature, as the COE is intended to be a resource.

Commissioner Altmaier asked the Working Group what sections of the Handbook it feels should be retained in an updated Handbook and what kind of topics would best be covered in more detail through the COE if it is adopted.

Mr. Grassel said there is a broad evaluation in the catastrophe models being discussed. He said it makes sense that the COE would do more in-depth work, and there is some application in whether we are discussing market conduct reviews or rate review filings. He said catastrophe models affect several different areas for DOIs, so he believes this is something state insurance regulators should keep in mind going forward.

Commissioner Altmaier said the selected catastrophe perils currently included in the Handbook are earthquake and hurricane. He said flood is becoming the most prominent catastrophe across the country, and many states, including Florida, are in the process of reviewing new commercial models for flood insurance. He said the Working
Group might want to consider whether to incorporate some information regarding flood models in the Handbook update.

Commissioner Altmaier said the Catastrophe Risk (E) Subgroup is working to develop catastrophe charges for the peril of wildfire. He said one of the challenges the Working Group has had is that wildfire models are not as robust as hurricane and earthquake models. He said it may be worthwhile to determine if wildfire models fit into the Handbook as well.

Mr. Chou said the Catastrophe Risk (E) Subgroup has adopted the wildfire peril as informational only. He said the Subgroup is still in discussion regarding the peril it will discuss next.

Commissioner Altmaier said he would also bring some focus to the sections of the Handbook regarding the input that goes into a catastrophe model. He said there is a commonly quoted phrase, “garbage in, garbage out.” He said he believes it is important for state insurance regulators to have a thorough understanding of what goes into a model, so it makes sense to spend some time evaluating this section of the Handbook. He said the Working Group should evaluate what information belongs in the Handbook and what information would be more suited to the COE.

Commissioner Altmaier said states have a variety of different processes regarding catastrophe modeling. He said some states have a formal process, while others do not. He said Florida uses the “Hurricane Loss Projection Methodology,” and Louisiana requires that insurers send in a narrative about the rationale behind the models they are using. He asked the Working Group if it would be helpful to consider compiling a list of bulletins or regulations around the country to help understand the similarities and differences between state approaches to the use of catastrophe models. This could be added as an appendix to the Handbook. Other states agreed.

Commissioner Altmaier said one of the things he found interesting is that many times, the way direct writers use catastrophe models is different from how reinsurers use catastrophe models. He said reinsurers will typically have more flexibility since they fall under regulatory jurisdictions outside of the U.S. He said reinsurance rates are oftentimes not subject to regulatory approval, so they have more flexibility regarding how they use catastrophe models. He suggested that the Working Group might consider hearing some presentations and feedback from reinsurers about how they use catastrophe models. This information could be incorporated into the Handbook if the Working Group deems it helpful. Mr. Grassel said he believes this would be helpful because reinsurers play a much bigger role.

Commissioner Altmaier said the Working Group will form a drafting group based on state insurance regulators that have previously volunteered and add any state insurance regulators that would like to volunteer to be a part of the drafting group. He asked state insurance regulators interested in participating to email NAIC staff.

NAIC staff asked states that have a set of questions regarding perils to please forward those to the NAIC.

Having no further business, the Catastrophe Insurance (C) Working Group adjourned.
NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group

Virtual Meeting
March 25, 2022

The NAIC/FEMA (C) Advisory Group of the Property and Casualty Insurance (C) Committee met March 25, 2022. The following Advisory Group members participated: Glen Mulready, Chair (OK); Carter Lawrence, Vice Chair (TN); Chad Bennett and Katie Hegland (AK); Dan Gates (AL); Ken Allen (CA); George Bradner (CT); Susanne Murphy (FL); Travis Grassel (IA); Kate Kixmiller (IN); Tate Flott, Brenda Johnson, and Craig VanAalst (KS); James J. Donelon and Warren Byrd (LA); Joy Hatchette (MD); Jo LeDuc (MO); David Dahl and James T. Thompson (OR); Beth Vollucci (RI); and Marc McLaughlin (VA).

1. Heard a Presentation Regarding the NFIP’s Risk Rating 2.0

Doug Iannarelli (FEMA) said the National Flood Insurance Program’s (NFIP’s) Risk Rating 2.0 was rolled out in a phased approach. New business policies began to be written with the Risk Rating 2.0 rating methodology on Oct. 1, 2021. Mr. Iannarelli said existing policyholders could move into Risk Rating 2.0 if they chose to. Beginning on April 1, existing policyholders will be transitioned into Risk Rating 2.0. Mr. Iannarelli said agents are saying Risk Rating 2.0 is a new quoting experience. In general, trends in premium changes are what FEMA had expected.

Mr. Iannarelli said consumers are inquiring about the new rating variables. FEMA has trained over 31,000 agents about Risk Rating 2.0. Agents and consumers asked about elevation certificates and whether flood zones still matter. Commissioner Mulready said he attended the FEMA training and encouraged other state insurance regulators to do so.

Mr. Iannarelli said state insurance regulators should visit the Risk Rating 2.0 website, which has information about changes in rates by county and ZIP code and how the rating structure is designed. He asked commissioners to encourage consumers to talk to their agent. He said Risk Rating 2.0 does not require an elevation certificate, as was required before, but policyholders can provide an elevation certificate, and it will be used if it reduces their premium. Mr. McLaughlin asked why an elevation certificate is not factored in unless a policyholder wants it to be if Risk Rating 2.0 accurately reflects risk. Mr. Iannarelli said the ground elevation is looked at, as well as the first-floor height of the building using different data sources, but if a surveyor determines the ground elevation and that provides better information, then that information will be used to rate the policy.

2. Heard a Presentation Related to FEMA’s CRS

Commissioner Mulready said the city of Tulsa, OK, recently achieved a “1” rating in FEMA’s Community Rating System (CRS), becoming only the second city to do so. Bill Lesser (FEMA) said the NFIP and the NAIC have shared ambitions in terms of serving consumers and ensuring that insurance is available. He said the CRS was created in 1990 as a way for communities to receive NFIP premium discounts if their community is implementing floodplain management practices that exceed the minimum requirements, like building code enforcement, regulatory provisions, and public information. He said the CRS was modeled after the fire rating system used by insurance companies.

Mr. Lesser said participation in the CRS is voluntary. There are about 22,500 communities in the NFIP nationwide, and about 1,500 communities are in the CRS. He said those 1,500 communities include the highest risk flood communities, leading to about 75% of all NFIP policies being in CRS communities. He said the CRS Coordinator’s Manual describes all aspects of the community’s participation, including how many points communities can
receive in the many different floodplain management activities. The goals of the program are to reduce and avoid flood damage to insurable property, strengthen and support certain insurance aspects of the NFIP, and foster comprehensive floodplain management.

Mr. Lesser said there are 10 classes within the CRS, with each class receiving a percentage discount on NFIP policies. He said Class “1” policyholders receive almost a 50% premium discount. He mentioned four broad categories of activities within the CRS: 1) public information; 2) mapping and regulations; 3) flood damage reduction; and 4) warning and response. Credits for flood insurance promotion can be achieved by working with agents or forming a committee to promote flood insurance, which supports the FEMA objective of closing the insurance gap. He noted that CRS communities are across the nation, and about 20 have achieved a 1–4 class rating.

Mr. Lesser said under Risk Rating 2.0, all policyholders will receive a premium discount if their community participates in the CRS, not just those in the Special Flood Hazard Area (SFHA). He said the growth of interest in the CRS is likely to lead to more affordable flood insurance.

Mr. Lesser said state insurance commissioners can become informed about CRS participation in their state, connect with the state office of the NFIP state coordinator, connect with the Association of State Floodplain Managers (ASFPM), and develop a CRS participation messaging platform within their state.

Mr. Grassel asked what Tulsa has done to help achieve CRS credits. Mr. Bradner said he hears from communities that there is a lot of work that goes into achieving a high score. Commissioner Mulready said Tulsa experienced devastating flooding decades ago, which motivated the community to act. He said it took many years to achieve the CRS Class “1” rating. He said Tulsa has made a lot of flood control and infrastructure improvements.

Mr. Lesser said most communities in the top four classes have experienced devastating flooding, sometimes more than once. He said Tulsa bought out at-risk communities, which earned them credits. He also said communities often have a learning curve in the first year of being in the CRS. He said many training webinars are available for communities. He said there are groups of community coordinators who come together in user groups to share best practices, and this is very helpful for communities. Mr. Bradner said using the agent community might help communities achieve CRS classes. Mr. Lesser said some of the user groups have agents involved.

Jeff Czajkowski (NAIC) asked if there would be overlap between the CRS and Verisk’s Building Code Effectiveness Grading Schedule (BCEGS), where communities could leverage resources by participating in both programs. Mr. Lesser said there are communities that participate in both, and the CRS requires a minimum BCEGS score. He said it is important for communities that are flood prone to have building codes and be able to enforce protective floodplain management practices as it relates to buildings and methods of construction. Dale Thomure (Verisk) said there is overlap between credits in the CRS and the BCEGS. He said Verisk works closely with the CRS in leveraging those programs. He said building code enforcement and building code regulations go hand in hand with flood plain management and are highly variable from jurisdiction to jurisdiction. Mr. Czajkowski said states might be able to leverage resources across the programs, and state insurance regulators should look at both programs.

Mr. Lesser said a state insurance commissioner could be a voice to advocate for better building codes. He said some states have building codes that are both a maximum and minimum, so communities cannot enact building codes of a higher standard. Some communities are not able to adopt a minimum elevation about base flood elevation.
3. **Heard an Update on the Spring National Meeting**

Commissioner Mulready said the Catastrophe Insurance (C) Working Group and the Advisory Group will meet jointly on April 4 at the Spring National Meeting. He said the Working Group will receive an update from the drafting group making edits to the *Catastrophe Computer Modeling Handbook*. The Advisory Group will: 1) hear reports about upcoming and recent FEMA regional meetings; and 2) receive an update on the status of the NAIC’s Catastrophe Resource Center. Commissioner Mulready said states may also report on their response to recent catastrophes during the meeting.

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