

Draft Pending Adoption

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Climate and Resiliency (EX) Task Force
Tampa, Florida
December 15, 2022

The Climate and Resiliency (EX) Task Force met in Tampa, FL, Dec. 15, 2022. The following Task Force members participated: Ricardo Lara, Co-Chair, represented by Mike Peterson (CA); David Altmaier, Co-Chair (FL); Colin M. Hayashida, Co-Vice Chair, represented by Martha Im (HI); James J. Donelon, Co-Vice Chair, represented by Chuck Myers (LA); Kathleen A. Birrane, Co-Vice Chair (MD); Barbara D. Richardson, Co-Vice Chair (NV); Andrew R. Stolfi, Co-Vice Chair, and TK Keen (OR); Elizabeth Kelleher Dwyer, Co-Vice Chair (RI); Lori K. Wing-Heier (AK); Mark Fowler (AL); Alan McClain (AR); Michael Conway represented by Peg Brown (CO); Andrew N. Mais represented by George Bradner and Wanchin Chou (CT); Trinidad Navarro represented by Frank Pyle (DE); Doug Ommen (IA); Dana Popish Severinghaus (IL); Sharon P. Clark (KY); Timothy N. Schott (ME); Anita G. Fox represented by Chad Arnold (MI); Grace Arnold and Peter Brickwedde (MN); Chlora Lindley-Myers represented by Cynthia Amann (MO); Mike Causey represented by Angela Hatchell and Jackie Obusek (NC); Eric Dunning and Connie Van Slyke (NE); Adrienne A. Harris represented by John Finston (NY); Judith L. French represented by Tom Botsko and Carrie Haughawout (OH); Michael Humphreys and David Buono (PA); Michael Wise (SC); Carter Lawrence represented by Stephanie Cope (TN); Tregenza A. Roach represented by Cheryl Charleswell (VI); Kevin Gaffney (VT); Mike Kreidler represented by Molly Nollette (WA); Nathan Houdek (WI); and Jeff Rude (WY).

1. Adopted its Summer National Meeting Minutes

Director Wing-Heier made a motion, seconded by Acting Commissioner Fowler, to adopt the Task Force's Aug. 11 minutes (see *NAIC Proceedings – Summer 2022, Climate and Resiliency (EX) Task Force*). The motion passed unanimously.

2. Received an Update on NAIC Activities Related to Climate Risk and Resiliency

Commissioner Altmaier said relative to the Task Force charge to evaluate financial regulatory approaches to climate risk and resiliency in coordination with other relevant committees, the Solvency Workstream has issued four referrals. In response to the Solvency Workstream's referral, in 2022, the Property and Casualty Risk-Based Capital (E) Working Group began collecting wildfire-modeled loss data for informational purposes in the Risk-Based Capital (RBC) framework. The Working Group is considering a requirement to add severe convective storm-modeled loss data.

The Solvency Workstream also issued referrals to the Financial Analysis Solvency Tools (E) Working Group, the Financial Examiners Handbook (E) Technical Group, and the Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup. Each referral has been received, and work will begin in 2023.

Since the Summer National Meeting, the Solvency Workstream has hosted several panel discussions to understand the various approaches to scenario analysis, including panelists from Verisk, Moody's Investors Service (Moody's), the Bank of England (BoE), Financial Market Authority (FMA) in Austria, the Financial Services Commission (FSC) in Barbados, the Bermuda Monetary Authority (BMA), Liberty Mutual, and Equitable.

In accordance with the Task Force charge to evaluate the use of modeling by carriers and their reinsurers concerning climate risk, the Technology Workstream issued a referral to the Catastrophe Insurance (C) Working Group to update the *Catastrophe Computer Modeling Handbook*. In 2022, the NAIC also established a Catastrophe Modeling Center of Excellence (COE).

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In accordance with the Task Force charge to evaluate insurance product innovation directed at reducing, managing, and mitigating climate risk, as well as closing protection gaps, the Innovation Workstream held meetings to hear about parametric products and discuss their ability to reduce coverage gaps related to natural catastrophes. The Property and Casualty Insurance (C) Committee adopted a charge in 2022 to provide a forum for discussing issues related to parametric insurance and consider the development of a white paper or regulatory guidance.

Related to the Task Force charge to consider appropriate climate risk disclosures within the insurance sector and alignment with other sectors and international standards, in 2022, the Climate Risk Disclosure Workstream developed a new climate risk disclosure survey aligned to the Financial Stability Board's (FSB's) Task Force on Climate-Related Financial Disclosures (TCFD). The survey is voluntary for states and territories to use to collect information from their licensed insurers. The California Department of Insurance (DOI) provides a uniform reporting mechanism for insurers and a publicly available database containing each insurer's response to the survey.

3. Discussed State Actions to Incentivize Mitigation and Resiliency

Jennifer Gardner (NAIC) said in support of the Task Force charge to consider pre-disaster mitigation and resiliency and the role of state insurance regulators in resiliency, NAIC staff developed a resource web page to identify how states are incentivizing mitigation, offering resources on the topic, and providing ways for states to get involved. Mitigation and resiliency efforts vary across the states and come down to six key themes: 1) stakeholder coordination and risk assessment; 2) land use and building codes; 3) hazard mitigation; 4) resiliency funding; 5) consumer outreach; and 6) insurance access. States across the country have already taken steps to engage in each of these areas, and examples follow.

Peterson said in early 2021, the California DOI formed a partnership with the state wildfire emergency agencies to establish a framework of risk mitigation actions to reduce the risk of wildfire to existing homes and businesses. Through this partnership, they developed the Safer from Wildfires framework. In mid-October 2022, the California DOI finalized regulations that require insurance companies to include certain home and community hardening actions identified in the framework in their rating plans and insurance pricing. Peterson said the regulations link insurance regulation with mitigation research and provide transparency and consistency for property owners. The framework outlines the activities to undertake at the individual property level, as well as at the community level to reduce the risk of a loss from wildfire. There are two community-level designations in the framework: 1) the California Fire Risk Reduction Community List; and 2) the National Fire Protection Association (NFPA) Firewise program.

The California DOI expects to continue engaging with other state agencies to further their objectives around public outreach and communication, collecting data on where home hardening efforts have been completed, as well as where there are additional needs. The stakeholder coordination and data gathering will help inform future regulations. Additionally, they plan to review the content published in the insurer climate risk disclosure reports to assess how insurers are approaching pre-disaster mitigation. Finally, California established a wildfire mitigation grant program in 2019 and recently began providing funding for actions taken by property owners and communities to reduce property loss from wildfires in the state.

Keen said in 2020, Oregon had five fires over Labor Day weekend that burned over one million acres, caused nine deaths, destroyed over 3,000 homes and 1,400 other structures, and resulted in an estimated \$2.5 billion in insured losses. In 2021, Oregon experienced the Bootleg fire, which affected another 500,000 acres. In 2021, the Oregon legislature passed Senate Bill 762, which required state agencies to work together toward solutions. The first step was to develop a wildfire risk map, which is still under development by the Oregon Department of Forestry. It had been 20 years since any risk mapping had been done at the state level, and while they are working

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through some challenges currently, they expect to finalize the map in 2023. The state agencies have also been examining the availability for prescribed fire insurance and liability options for entities who carry out prescribed burns. Additionally, the agencies are working together to create a 20-year land management plan, researching wildfire risk reduction options, and identifying ways to increase access to affordable insurance.

The Oregon Department of Consumer and Business Services (DCBS) has outlined a proposal to put forward in the next legislative session to ensure that consumers receive insurance credits or other insurance incentives to reward policyholders for creating defensible space and engaging in home hardening activities. Over 200 communities in the state have been designated through the NFPA Firewise program, and the state hopes to increase that number. They have also been heavily involved with the Governor's office, which created a new position exclusively focused on bringing the agencies together to coordinate wildfire response.

Commissioner Arnold said she sits on the Governor's subcabinet, which consists of 15 agencies, and she is the lead on the Governor's Advisory Council on Climate Change. The climate vision for the state includes carbon neutrality, building resilient communities, and addressing equality and accessibility. Cross-agency teams have been created around six goal areas: 1) clean transportation; 2) clean energy and efficient buildings; 3) climate-smart natural and working lands; 4) healthy lives and communities; 5) resiliency communities; and 6) clean economy.

Commissioner Arnold said the Minnesota Department of Commerce has been working with various departments across the state, including the Minnesota Department of Labor and Industry to update state building codes. She is also working with the Minnesota Department of Health to consider health and safety impacts and the Minnesota Department of Employment and Economic Development (DEED) on workforce issues, particularly related to clean energy. She said the Minnesota Department of Commerce sought input from other states, such as Alabama and South Carolina, regarding mitigation grant programs utilizing the Insurance Institute for Business and Home Safety (IBHS) FORTIFIED Standard. She said she expects the next Minnesota legislative session, which will be in early 2023, to include a proposal to create a state hazard mitigation program.

Acting Commissioner Fowler said in the aftermath of Hurricanes Katrina and Ivan, the Alabama legislature created the Strengthen Alabama Homes (SAH) program. The program was established by statute in 2013 and became operational in 2016. The program provides up to \$10,000 in grant funds for Alabama residents to retrofit their single-family home to IBHS FORTIFIED Standards. The program launched in the coastal regions of Mobile and Baldwin counties. In 2019, the legislature expanded the program to encompass the entire state. Grants have been provided in 28 of the 57 counties throughout Alabama, providing \$15 million in grants to residents to fortify their homes. Alabama has invested \$45.7 million in the SAH program since its inception. This has resulted in a total economic impact of \$97.8 million in savings, added \$63.98 in gross domestic product(GDP), and created 960 jobs.

Alabama leads the nation in IBHS FORTIFIED properties, with over 40,000 homes designated. Approximately 5,000 of those were completed through the grant program. Additionally, the Alabama DOI requires an insurance premium discount of 20–50% for wind mitigation.

Myers said the 2022 Louisiana legislative session authorized House Bill 612 to establish the Louisiana Fortify Homes Program, a wind mitigation program utilizing the IBHS FORTIFIED Standard. The program is open to all Louisiana residents on a first come, first served basis. There are no funds appropriated currently, but Myers said he anticipates funding to be made available beginning July 1, 2023. Grants will provide homeowners with somewhere between \$3,500 and \$5,000 for home upgrades.

Bradner said around 14 years ago, he was asked to co-chair a long-term recovery task force for Connecticut, with a state representative for the Connecticut Department of Economic and Community Development. Shortly thereafter, they launched a long-term recovery committee, which included representatives from state agencies,

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including the state hazard mitigation officer, individual assistance and housing organizations, planning and capacity building, health and social services, town and municipal organizations, tribal representatives, the Office of the Governor, and colleges and universities, among others.

After Superstorm Sandy, Connecticut received individual assistance from the Federal Emergency Management Agency (FEMA). Based on what it learned by helping victims of Superstorm Sandy, the Connecticut Long-Term Recovery Committee worked with CT Rises, a voluntary organization active in disaster, to create *CT Rises: Planning for Long-Term Disaster Recovery*. The report is a guide for communities setting up recovery and disaster case management at the municipal level. Executive Order No. 50, issued on Oct. 26, 2015, established the State Agencies Fostering Resilience (SAFR) Council. Executive Order No. 53, issued on April 22, 2016, directed the Connecticut Department of Administrative Services, the Connecticut Department of Energy and Environmental Protection, and the Connecticut Insurance Department to work with the State Building Inspector to ensure that the State Building Code contains standards that increase the resilience of new and renovated homes and buildings. In 2022, the Connecticut Insurance Department and the Connecticut Green Bank received a grant from the Robert Wood Johnson Foundation (RWJF) to research the potential impact and investment needed in climate-smart technology to support underserved communities. The research supports sustainable energy independence and backup power generation for Connecticut residents reliant on home medical devices. The RWJF grant amount provides \$250,000, and the Connecticut Green Bank provided matching funds to double the amount of funding for the project.

Brown said in recent years, Colorado has experienced more extreme drought conditions, severe hailstorms, significant flood events, and high winds exacerbating the risk of loss from wildfire. The Marshall Fire that occurred on Dec. 31, 2021, destroyed more than 1,000 homes and a significant number of businesses. Loss events have been concentrated in highly populated areas of the state, mostly in urban and suburban mountain foothill communities. Colorado does not have a statewide building code requirement. Following the Marshall Fire, the Colorado Division of Insurance held six town hall meetings, with over 1,000 people in attendance, to help people on the path toward recovery. In 2022, the Colorado Legislature adopted Senate Bill 22-206, which created the disaster resiliency rebuilding program and the sustainable rebuilding program in the office of climate preparedness. A new office was created in the governor's office to coordinate various state agencies on resiliency efforts. Their first goal is to create a statewide climate preparedness roadmap, founded on data and analysis regarding population and environmental trends to inform mitigation goals. The Colorado Division of Insurance is engaged in several research studies to assess its natural hazard risk, address inadequate insurance coverage, achieve sustainable rebuilding goals, and identify the need for a residual market mechanism to support access to insurance.

Commissioner Altmaier said Florida has experienced similar issues, with access and affordability of property insurance driving an increase in policies written by the Florida Citizens Property Insurance Corporation. The number of policies written by the state insurer of last resort has increased from 400,000 policies several years ago to more than one million today. Florida held a special legislative session earlier in the week, passing two substantive reform bills, Senate Bill 2A (Chapter No. 2022-271) and Senate Bill 4A (Chapter No. 2022-272) to correct issues related to its property insurance market.

4. Heard a Federal Update

Ethan Sonnichsen (NAIC) said in March 2022, the U.S. Securities and Exchange Commission (SEC) voted to require publicly traded companies to disclose their direct and indirect climate-related contributions, utilizing the TCFD framework. In November 2022, the NAIC sent a letter to the Federal Insurance Office (FIO) regarding its proposed data call to collect climate-related property insurance information. The FIO is also anticipated to release a report assessing climate-related issues or gaps in insurance supervision and regulation by year-end 2022.

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The NAIC continues to support U.S. Sen. Dianne Feinstein (D-CA) and U.S. Rep. Bennie Thompson's (D-MS) Disaster Mitigation and Tax Parity Act (S. 2432/H.R. 4675), which would ensure that state-based disaster mitigation grants receive the same tax exemptions as federal mitigation grants. On Sept. 28, the U.S. Senate (Senate) unanimously passed the Community Disaster Resilience Zones Act (S. 3875), which would amend the Robert T. Stafford Disaster Relief and Emergency Assistance Act to make permanent the National Risk Index, or a similar tool, and utilize its data to identify and designate community disaster resilience zone communities most at risk to natural hazards. Also on Sept. 28, the Senate unanimously passed the FEMA Improvement, Reform, and Efficiency (FIRE) Act (S. 3092), which would help ensure that FEMA's disaster preparedness and response efforts fully address the unique nature of wildfires.

In July 2022, the U.S. House of Representatives (House) passed the Wildfire Response and Drought Resiliency Act, which included Chairwoman Maxine Waters' (D-CA) Wildfire Insurance Coverage Study Act (H.R. 8483). The Wildfire Insurance Coverage Study Act requires FEMA and the General Accounting Office (GAO) to conduct studies assessing the danger wildfires pose to communities and how the market for homeowners insurance is responding. A companion bill was not taken up in the Senate. In September 2022, Commissioner Lara testified in front of the House Committee on Financial Services on the state of emergency, examining the impact of growing wildfire risk on the insurance market.

5. Heard an International Update

Ryan Workman (NAIC) said climate risk and resilience continues to be a priority for international regulatory authorities and international standard-setting organizations. It also continues to be a focus for bilateral and multilateral dialogues. The International Association of Insurance Supervisors (IAIS) has three working groups focused on climate risk and resilience. In 2022, the IAIS supervisory guidance working group completed its review of IAIS supervisory material to assess whether there is a need for changes to the standards or the development of new supporting materials to address climate risk. While this review concluded that the Insurance Core Principles (ICPs) are sufficiently broad to cover climate risks, it was agreed that a limited number of changes to ICP guidance was necessary to even more explicitly indicate that insurance supervisors should require insurers to incorporate climate-related risks into their day-to-day operations, including governance, enterprise risk management (ERM), and disclosures. Public consultations on this material will begin in 2023.

The IAIS scenario analysis working group continues to develop and share practical capacity-building materials on climate scenario analysis for its members. The working group plans to draft an application paper concerning climate issues related to ERM for solvency and macroprudential supervision.

In September 2021, the IAIS published a special topic edition of the Global Insurance Market Report (GIMAR) regarding the insurance sector's investment exposures to climate-related risks. The report provided the first quantitative global study on the impact of climate change on the insurance sector. As a follow-up, data elements were added to the Global Monitoring Exercise (GME), which will become a regular feature of the IAIS's annual assessment of insurance sector risks and provide a global baseline of climate risk data for the insurance sector. The outcomes of the 2022 analysis will be published as part of the regular GIMAR by the end of 2022.

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

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