Draft Pending Adoption

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Catastrophe Insurance (C) Working Group
and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group
Tampa, Florida
December 12, 2022

The Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met in Tampa, FL, Dec. 13, 2022, 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: David Altmaier, Chair, represented by Virginia Christy, Christina Huff, Linda McWilliams, and Eliot Pardee (FL); Mike Causey, Vice Chair, represented by Timothy Johnson and Jackie Obusek (NC); Sarah Bailey (AK); Jennifer Brantley (AL); Ken Allen, Laura Clements, Abigail Meraz, and Lynne Wehmueller (CA); George Bradner (CT); Martha Im and Kathleen Nakasone (HI); Travis Grassel (IA); Susan Berry (IL); Chris Hollenbeck and Julie Holmes (KS); Chuck Myers (LA); Joy Hatchette (MD); Jo LeDuc (MO); Mike Chaney and Mark Haire (MS); Carl Sornson (NJ); Glen Mulready and Rick Wagnon (OK); David Dahl, Brian Fordham, Tricia Goldsmith, Ying Liu, and Cliff Nolen (OR); David Buono (PA); Riley O'Rourke (SC); Kira Burnet, Stephanie Cope, and Brendan McCartt (TN); J'ne Byckovski, Eric Hintikka, Jessica Judge, Andy Liao, Shawn Martin, and David Muckerheide (TX); and David Forte (WA). Also participating was: Julia Conrad (IN). The following Advisory Group members participated: Glen Mulready, Chair, and Rick Wagnon (OK); Carter Lawrence, Vice Chair, represented by Kira Burnet, Stephanie Cope, and Brendan McCartt (TN); Sarah Bailey (AK); Jennifer Brantley (AL); Ken Allen, Laura Clements, Abigail Meraz, and Lynne Wehmueller (CA); George Bradner (CT); Virginia Christy, Christina Huff, Linda McWilliams, and Eliot Pardee (FL); Travis Grassel (IA); Chris Hollenbeck and Julie Holmes (KS); Chuck Myers (LA); Joy Hatchette (MD); Jo LeDuc (MO); David Dahl, Brian Fordham, Tricia Goldsmith, Ying Liu, and Cliff Nolen (OR); Tony Dorschner and Sam Watkins (SD); and David Forte (WA). Also participating were: Ron Kreiter (KY); Karen Dennis, Paige Dickerson, and Sarah Wohlford (MI); Mike Andring (NC); Debra Alvarez, Margaret Pena, and Sandra Romero (NM); Jack Childress (NV); Larry Wertel (NY); Michael McKenney (PA); Nick Marineau (VT); Michael Erdman, Christina Keeley, and Darcy Paskey (WI); and Tracy McEwen and Amanda Tarr (WY).

1. Adopted its Fall National Meeting Minutes

Cope made a motion, seconded by Grassel, to adopt the Working Group's Aug. 9 minutes (*see NAIC Proceedings – Summer 2022, Property and Casualty Insurance (C) Committee*) minutes. The motion passed unanimously.

2. Heard an Update from FEMA on the NFIP

David Maurstad (FEMA) said FEMA believes that insurance and mitigation are the best defenses against flooding. FEMA is currently working on internal resiliency efforts, as well as reorganizing its office of resilience. These efforts are being called the "Road to Resilience," and it is developing new and more effective ways for FEMA to operate. Maurstad said FEMA is working on aligning and streamlining its programs using a customer-centric and equity-based approach. FEMA examined how it currently engages with the public and is determining where it needs to make changes. FEMA's organizational structure will enable resilience to: 1) comprehensively assess and address risk; 2) help communities understand and act on future risk; 3) transfer financial risk through insurance to recover quickly; 4) reduce risk through investments in mitigation; 5) address preparedness and systemic solutions; and 6) build the capability and capacity to strengthen disaster resilience at all levels across all communities.

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Maurstad said the scale and frequency of natural disasters are increasing, and the impacts are getting worse. Hurricane Ian made landfall as a destructive Category 4 storm and was the deadliest to strike Florida since the Great Labor Day Hurricane of 1935.

To date, FEMA has exceeded $3.69 billion in the form of federal grants, disaster loans, and flood insurance payments for Hurricane Ian. Additionally, FEMA has paid $1.25 billion to policyholders for almost 26,000 closed claims; 46,000 total claims were received. The average claim payment has been a little over $72,000.

Maurstad said studies indicate disasters hit marginalized communities the hardest. These communities are often located in hazard-prone areas, and the homes in these areas are typically built to lower standards. These communities take the longest to recover, and some never recover.

Maurstad said FEMA is prioritizing equity in the delivery of all its programs, beginning with instilling equity in disaster mitigation planning at the local level; Risk Rating 2.0 will help instill equity. The NFIP is not only fixing the long-standing inequities in the pricing system, but also it is better equipped for more frequent flooding events. Unlike past rating methodologies, NFIP policyholders pay a premium based on their own unique flood risk; this was not done in the past.

Maurstad said the NFIP is redesigning its policy forms so they will be more like a standard homeowners policy. Historically, the NFIP policy was one-size-fits-all, where the only choices for a policyholder were the amount of their deductible, limit of coverage, and whether they wanted to cover their personal property with a separate policy. The policy redesign will make it easier for a policyholder to understand their coverage choices and to customize the policy.

Maurstad said the NFIP is exploring direct-to-customer innovations that would offer convenient ways for consumers to purchase flood insurance online or through a mobile application. Additionally, the NFIP is researching how it can provide installment plans, as it would address the issue of affordability and accessibility of its product.

Maurstad said FEMA expects the current Congress to vote to extend the NFIP prior to its expiration on Dec. 16, making this the NFIP's 23rd short-term reauthorization. In the new year, FEMA plans to re-engage with Congress regarding the proposed reforms that FEMA transmitted to Capitol Hill last June. These reforms would address: 1) the areas of affordability; 2) debt cancellation; 3) annual equalization; 4) appropriation; 5) flood risk disclosure; and 6) dealing with excessive loss properties. FEMA is advocating for a 10-year reauthorization.

Bradner asked what the FEMA team is doing to address climate risk overall, as well as elaborating further on the displacement FEMA is seeing on NFIP flood insurance policies. Maurstad said that while FEMA recognizes that flood insurance covers a one-year period, it believes climate change is having an influence on future risks. He said the NFIP's new rating methodology relies on catastrophe models using data from the National Oceanic and Atmospheric Administration (NOAA) and the U.S. Geological Survey (USGS) that is updated on a recurring basis. This data is used to rate the risk, and the data will reflect the changing climate as events occur. This will help FEMA adapt to the increased frequency and severity of storms.

Maurstad said the NFIP is seeing new policies being written. He said he believes the number of new policies written is somewhere around 325,000. However, the NFIP has seen a reduction in the number of properties covered over the last 12 years, and there has been a steady decline in the number of properties insured by the NFIP. The number of properties insured by the NFIP has declined by approximately the same percentage year-over-year. Therefore,

FEMA cannot attribute the policy decline specifically to Risk Rating 2.0. Maurstad said approximately 20% of the NFIP's flood insurance policies being renewed are seeing premium decreases. He said 60%–65% of the flood insurance policies written under the Risk Rating 2.0 program are seeing increases of $0–$10 per month, which is in line with what policyholders were seeing under the old program.

Bradner asked if FEMA is tracking those areas that are not in low-risk flood zones, such as the 1% chance of potential flooding. Maurstad said FEMA regularly reviews potential risks outside of the areas that are deemed a 1% chance flood zone.

Birny Birnbaum (Center for Economic Justice—CEJ) asked if FEMA has tracked the growth of the private flood insurance market. Maurstad said FEMA has worked closely with the NAIC to review the growth of the private flood insurance market. He said the growth of the private flood insurance market indicates that some flood insurance policies are moving from the NFIP to the private flood insurance market.

Birnbaum asked if the risk for the policies remaining in the NFIP has increased. Maurstad said FEMA has not noted an increase in risk for the remaining NFIP policies.

Birnbaum asked if FEMA had been tracking affordability issues. Maurstad said FEMA and the NFIP are aware of affordability issues and do not want consumers to be priced out of flood insurance. Birnbaum asked how much of the premium goes to claims, sales costs, reinsurance, and repaying the Treasury. Maurstad said he would have to follow up with specific amounts.

3. Heard an Update from Florida on Hurricanes Ian and Nicole

Christy said the Florida Office of Insurance Regulation (FLOIR) was quick to respond and that Commissioner Altmaier visited the disaster areas the day after Hurricane Ian passed. The FLOIR set up disaster response centers, which included FEMA, so affected consumers had a one-stop shop. Consumers could visit with FEMA if they required individual assistance or NFIP policies, as well as visit with the private flood insurers if they carried private flood insurance.

Christy said that while Hurricane Ian was forecasted as a big major storm, there was less damage than expected. The FLOIR has seen just under 650,000 insurance claims as of Nov. 30, with an estimated $10.1 billion in insured losses, not including NFIP claims. 450,000 of these claims were residential insurance claims. She said the FLOIR saw approximately 3,200 claims from the private flood insurance market.

Christy said some of the newer homes, built to the Florida building code, were able to withstand much of the wind, which alleviated some of the damage.

Christy said the FLOIR continues issuing data calls and is going to require ongoing reporting from insurers. The FLOIR also released an order requiring a stay in the cancellation and non-renewal of policies to give consumers some time to get back on their feet. While this order has expired, Florida provides some consumer protection. If there is a property that was damaged by Hurricane Ian, the insurer cannot non-renew or cancel a policy for a period of 90 days after the property is repaired. Christy said the response to Hurricane Ian is ongoing and that the FLOIR is also responding to Hurricane Nicole. She said data is publicly available on the FLOIR website.

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Bradner asked how much of a loss is uninsured or not covered and asked if the FLOIR is able to split out what percentage of the losses are from flood loss and the percentage of those that did not have coverage. Christy said she did not have specific data on hand, but this data would come from the NFIP.

Birnbaum said one-third of the claims were closed without payment and asked if this is a normal percentage following a disaster. He asked if the claims were closed without payment because they were deemed to be flood events and not covered under a normal homeowners policy. Christy said they would have to assess the data, as some claims may also be closed because it was a flood claim or because it did not meet deductibles.

John Huff (Association of Bermuda Insurers and Reinsurers—ABIR) said Bermuda reinsurers will provide approximately 25% of the reinsurance for the catastrophe losses due to Hurricane Ian. He said about $13 billion has been paid to date by reinsurers.

4. Heard an Update from FEMA on Interaction with the FLOIR in the Recovery of Hurricanes Ian and Nicole

Dewana Davis (FEMA) said there are more than 22,000 NFIP communities nationwide. Communities that are part of the Community Rating System (CRS) work above the NFIP's national standards to make the community safer and to provide more affordable rates for consumers.

Region 4 has more than $1.9 million NFIP policies, and more than 50% of these policies are held in Florida. There is a CRS savings of slightly more than $235 million due to the large number of communities participating in the CRS. Davis said prior to Risk Rating 2.0, the NFIP only offered CRS savings to those living in the special flood hazard areas (SFHAs), which are the higher-risk areas. Under Risk Rating 2.0, CRS discounts are offered to anyone who lives in a community that participates in a CRS community.

Hurricane Ian had a devastating impact in the Southeast. Several states other than Florida were affected by the hurricane, namely Georgia, North Carolina, South Carolina, and Virginia. To date, the NFIP has paid out more than $1 billion in claims. Davis said following Hurricane Ian, the NFIP sent out a bulletin to the Write Your Own (WYO) companies extending its policy renewal grace period. Following Hurricane Ian, the grace period was extended to 90 days. The NFIP also extended its proof of loss deadline from 60 days to 365 days to accommodate those unable to return to their homes or businesses immediately following the storm. Amy Bach (United Policyholders—UP) asked if the proof of loss was extended for Hurricane Nicole. Davis said it had not been extended as of the current date.

Davis said FEMA worked with the FLOIR to provide support for the insurance villages located in Fort Myers and Port Charlotte. She said the NFIP has participated in an extensive number of town hall engagements to answer claims questions for those having questions about the claims process and to explain and promote the NFIP program.

Davis said FEMA Region 4 and the NAIC formed a Working Group that meets every other month. FEMA shares best practices with the states residing in FEMA Region 4. As an example, Davis shared that the Working Group discussed derelict vessels, which is a concern for FEMA. She said FEMA wants to work with the departments of insurance (DOIs) to provide strong messaging to clear areas of derelict vessels and speed up the recovery process.

Bradner said following most disasters, public assistance (PA) is declared relatively quickly, but individual assistance (IA) has a much higher bar to be reached before it is offered. He asked how quickly IA was provided in Florida

following Hurricane Ian. Davis said she believes the IA was declared prior to landfall simply because the extent of the devastation was known prior to Hurricane Ian making landfall.

5. Heard an Update from FEMA on Training Opportunities and Resources

Liana Kang (FEMA) said currently FEMA offers two webinars through FEMA that anyone can attend to learn about the NFIP: 1) "Key Fundamentals of Flood Insurance"; and 2) "Risk Rating 2.0 – Equity in Action."

"Key Fundamentals of Flood Insurance" is a free course that is offered in two parts and offers continuing education (CE) credits for insurance professionals. This course has been updated to reflect the new rating methodology and presents the new rating variables, as well as the NFIP information that has not changed. Course registration can be accessed through the floodsmart.gov website and clicking on the "Training" menu item.

The "Risk Rating 2.0 – Equity in Action" webinar is currently offered once a month and is led by FEMA's regional flood insurance liaisons. FEMA adapts the content of this course as needed for the audience attending. Kang said, for example, this fall the presenters focused on policy rules and transition rules. She said this webinar lasts two hours and is free. While CEs are not offered, this webinar offers a great opportunity for questions and answers in real-time chat with the moderators. Presenters will additionally follow-up offline if needed.

Kang said a training announcement has been distributed monthly and to the Catastrophe Insurance (C) Working Group and interested state insurance regulators, as well as the NAIC/FEMA (C) Advisory Group members and interested state insurance regulators.

Kang said FEMA offers many online resources for independent review. The two best resources include floodsmart.gov and FEMA.gov. Floodsmart.gov is FEMA's one-stop shop tailored to agents for all aspects of what to do before, during, and after a flood event. FEMA.gov provides information beyond the basics, such as individual assistance, flood maps, and "Risk Rating 2.0 – Equity in Action." Kang said FEMA has recently developed a YouTube series and an NFIP 101 course. These videos can be used and forwarded by anyone. There are currently three videos, and two more are in the process of being developed.

Kang said another FEMA partner that provides educational opportunities is the Association of State Floodplain Managers (ASFPM) in conjunction with FEMA's Floodplain Management Division. These courses provide an online introduction to floodplain management and are geared towards the floodplain management community. However, its unit on flood insurance is a great up-to-date, self-paced training that can also be viewed for free on the ASFPM website.

Kang provided the Working Group with a map of the FEMA Regional flood insurance liaisons, which also list contact information for each region. The flood insurance liaisons can assist states with more technical assistance regarding NFIP claims, underwriting and coverage, pre- and post-disaster support, public awareness, events, and activities.

6. Heard an Update on Federal Legislation

Brooke Stringer (NAIC) said the NFIP expires Dec. 16, but it is expected to be extended in the next spending bill. Both the U.S. House of Representatives and the U.S. Senate are in session, and they will likely complete a stop-gap in the short-term and then later will pass a year-long spending bill.

Stringer said the Federal Housing Administration (FHA) has finalized its private flood rule. This is important because it would allow consumers to choose whether they want to purchase an NFIP policy or a private flood insurance policy.

Stringer said the NAIC continues to support Sen. Dianne Feinstein (D-CA) and Rep. Mike Thompson's (D-CA) Disaster Mitigation and Tax Parity Act (S. 2432/H.R. 4675). This Act would ensure that state-based disaster mitigation grants receive the same federal tax exemptions as federal mitigation grants. This was in the Reconciliation bill that failed to move forward.

The Senate passed the Community Disaster Resilience Zones Act (S. 3875) on Sept. 28. This bill will amend the Stafford Act to make permanent the National Risk Index, or a similar tool, and use its data to identify and designate community disaster resilience zone communities that are the most at risk for natural hazards. This would allow FEMA to identify which communities are in most need of assistance for mitigation projects.

Stringer said the Senate also passed the FEMA Improvement, Reform, and Efficiency (FIRE) Act (S. 3092) on Sept. 28. This Act would help ensure that FEMA's disaster preparedness and response efforts fully address the unique nature of wildfires. In July, the House passed the Wildfire Insurance Coverage Study Act (H.R. 8483). This Act would require FEMA and the General Accountability Office (GAO) to conduct studies assessing the danger that wildfires increasingly pose to communities and how the market for homeowners' insurance is responding to this growing threat. This was passed by the House, but not taken up by the Senate.

7. Discussed the Survey Sent to States on Wind/Hail Deductibles

Aaron Brandenburg (NAIC) presented information the Working Group gathered from several DOIs regarding deductibles and storm deductibles. The Catastrophe Insurance (C) Working Group has had prior discussions about homeowner policy coverage changes. Similar discussions took place during the Insurance Institute for Business & Home Safety (IBHS) state insurance regulator trips earlier this year. Working Group leadership asked the Working Group to reach out to the states as a follow-up to these discussions.

Brandenburg said the Working Group sent a survey to the DOIs in early November. The purpose of the survey was to get a better understanding of what states were seeing regarding deductibles in homeowner policies, such as actual cash value (ACV) versus replacement cost value (RCV) and trends in the use of storm deductibles. Twenty-two states participated in the survey to date. Approximately 62% of the states surveyed saw separate roof deductibles. Many of the respondents said they are seeing flat and percentage deductibles, with percentage deductibles ranging from 0.5% to 10% and flat deductibles ranging from $500 to $10,000.

Brandenburg said some states are seeing ACV being used for roof replacement, and several states are seeing more percentage deductibles. He said most states are not actively tracking this information, so it is difficult to tell how prevalent these movements are within the homeowners' policies. California provided some numbers, and they indicated they have more extended replacement cost policies than other types of policies. Maryland does not track this information, but anecdotally, they are seeing a high percentage of policies with RCV for dwelling claims. Brandenburg said the Working Group wants to know whether ACV is becoming more prevalent on roof replacements. The main takeaway is that although states have a feel for the new trends, they are not actively tracking these trends.

Brandenburg said the Working Group will potentially have a panel discussion composed of state insurance regulators, insurers, and consumer groups. Consumer groups have been actively working with policyholders to

help them better understand what types of policies are available in the current market. Brandenburg said the NAIC would provide an update during the next Working Group meeting.

8. Heard an Update on the *Catastrophe Modeling Primer*

Brandenburg said the purpose of the *Catastrophe Modeling Primer* is to provide new state insurance regulators with basic information regarding catastrophe models. The Primer will be a bridge to the training being developed by the Catastrophe Modeling Center of Excellence (COE). This drafting group is being led by Nicole Crockett (FL). The COE is currently fully staffed, and its staff have been participating in drafting group calls.

The drafting group last met on Dec. 1 and will continue to meet regularly. To date, the drafting group has developed an outline providing topics to be included in the primer and has drafted and reviewed several sections, including the purpose, background, the state insurance regulator's perspective regarding catastrophe models, how catastrophe models work, and catastrophe model components. The drafting group plans to meet again in January.

9. Discussed Other Matters

Brandenburg said during the Summer National Meeting, he reported on the private flood insurance data the NAIC collects annually. The data showed the residential private flood insurance premiums increased by 60% in 2021. The number of policies has increased by approximately 30% year over year. There were 400,000 residential private flood insurance policies in 2020 and 562,000 residential private flood insurance policies in 2021.

The NAIC has since received the number of NFIP policies in force, which indicates the NFIP lost approximately 400,000 policies in the last two years and 200,000 in the last year. While there is an increase in residential private flood insurance, the increase is not keeping pace with the decrease in NFIP policies. These numbers indicate there are less flood insurance policyholders.

Brandenburg said regulators from the Northeast Zone have had initial conversations with FEMA colleagues about holding an in-person workshop in April 2023. Planning will begin in early 2023.

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

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