NAIC NATIONAL MEETING SPRING 2022

Date: 3/29/22

2022 Spring National Meeting
Kansas City, Missouri

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE
Thursday, April 7, 2022
10:30 a.m. – 12:15 p.m.
Convention Center—Grand Ballroom 2501 AB—Level 2

ROLL CALL

Mike Chaney, Chair	Mississippi	Vicki Schmidt	Kansas
Alan McClain, Co-Vice Chair	Arkansas	James J. Donelon	Louisiana
Anita G. Fox, Co-Vice Chair	Michigan	Chris Nicolopoulos	New Hampshire
Jim L. Ridling	Alabama	Glen Mulready	Oklahoma
Ricardo Lara	California	Larry D. Deiter	South Dakota
Andrew N. Mais	Connecticut	Tregenza A. Roach	Virgin Islands
Trinidad Navarro	Delaware	Allan L. McVey	West Virginia
Colin M. Hayashida	Hawaii		

NAIC Support Staff: Aaron Brandenburg/Jennifer Gardner

AGENDA

1. Consider Adoption of its 2021 Fall National Meeting Minutes — Attachment One
   —*Commissioner Mike Chaney (MS)*

2. Consider Adoption of its Task Force and Working Group Reports — Attachment Two
   A. Casualty Actuarial and Statistical (C) Task Force
      —*Commissioner Mike Kreidler (WA)*
   B. Surplus Lines (C) Task Force—*Commissioner James J. Donelon (LA)*
   C. Title Insurance (C) Task Force—*Director Eric Dunning (NE)*
   D. Workers' Compensation (C) Task Force
      —*Commissioner Alan McClain (AR)*
   E. Cannabis Insurance (C) Working Group
      —*Commissioner Ricardo Lara (CA)*
   F. Catastrophe Insurance (C) Working Group
      —*Commissioner David Altmaier (FL)*
   G. Pet Insurance (C) Working Group—*Don Beatty (VA)*
   H. Terrorism Insurance Implementation (C) Working Group
      —*Martha Lees (NY)*
   I. Transparency and Readability of Consumer Information (C) Working Group—*Joy Hatchette (MD)*

3. Hear a Presentation Related to Private Passenger Auto (PPA) Insurance Results—*Aaron Brandenburg (NAIC)* — Attachment Three

4. Hear a Presentation Related to the Effects of Inflation on Auto and Homeowners Lines—*Susanna Gotsch (CCC Intelligent Solutions) and Robert Hartwig (University of South Carolina)* — Attachment Four

5. Discuss its Charge Related to Parametric Insurance Products —*Commissioner Mike Chaney (MS)*

6. Hear a Federal Update—*Brooke Stringer (NAIC)*

7. Discuss Any Other Matters Brought Before the Committee —*Commissioner Mike Chaney (MS)*

8. Adjournment

SharePoint/NAIC Support Staff Hub/Member Meetings/2022 Spring National Meeting/Agenda/C Cmte

Draft Pending Adoption

Draft: 12/28/21

Property and Casualty Insurance (C) Committee
San Diego, California
December 15, 2021

The Property and Casualty Insurance (C) Committee met in San Diego, CA, Dec. 15, 2021. The following Committee members participated: Vicki Schmidt, Chair (KS); Mike Chaney, Vice Chair (MS); Jim L. Ridling (AL); Ricardo Lara (CA); Andrew N. Mais and George Bradner (CT); Colin M. Hayashida (HI); Amy L. Beard (IN); James J. Donelon and Tom Travis (LA); Kathleen A. Birrane represented by Greg Derwart (MD); Grace Arnold and Julia Dreier (MN); Larry D. Deiter (SD); Tregenza A. Roach (VI); Michael S. Pieciak represented by Kevin Gaffney (VT); Mike Kreidler (WA); and Allan L. McVey (WV). Also participating were: Anoush Brangaccio (FL); and Don Beatty (VA).

1. Adopted its Nov. 10 Minutes

Commissioner Mais made a motion, seconded by Commissioner McVey, to adopt the Committee's Nov. 10 minutes (Attachment One). The motion passed unanimously.

2. Adopted the Reports of its Task Forces and Working Groups

a. Casualty Actuarial and Statistical (C) Task Force

Ms. Dreier reported that the Casualty Actuarial and Statistical (C) Task Force assisted the Blanks (E) Working Group in evaluating a proposal (2021-11BWG) submitted by the Center for Economic Justice (CEJ). The proposal was to add data reported on policy writings for private passenger auto (PPA) and homeowners insurance to the Property/Casualty (P/C) Annual and Quarterly Statements. Ms. Dreier said the Task Force never took a vote on whether to support the Blanks proposal; however, the Task Force sent state-by-state feedback on the proposal and sent the Statistical Data (C) Working Group's research on how much earlier statistical agents could provide premium and exposure data similar to the Blanks proposal. The Blanks (E) Working Group ultimately rejected this Blanks proposal.

Ms. Dreier said the Task Force was charged to evaluate whether P/C Appointed Actuaries were maintaining competence in years after passing exams. The Casualty Actuarial Society (CAS) conducted a study and found no issues with continuing education (CE) of Appointed Actuaries, so the Task Force deemed that charge completed with no further action regarding maintaining competence. With the charge complete, the Task Force will remove some temporary reporting requirements needed to conduct the CE study, which will be for 2023.

Ms. Dreier said the Task Force also drafted a response letter to the American Academy of Actuaries' (Academy's) second exposure draft for U.S. qualification standards. The Academy has adopted these standards, and the Task Force is going to follow up with the Academy to discuss why some changes were not made to better align with state insurance regulators' requirements for the P/C Appointed Actuaries. A proposed response in answer to the referral Project #2019-49: Retroactive Reinsurance Exception is now exposed for a 45-day public comment period ending Jan. 20, 2022.

Ms. Dreier also said a regulatory review of random forest models has been exposed for a 60-day public comment period ending Feb. 4, 2022. The proposal takes the appendix of generalized linear model (GLM) information items from the adopted *Regulatory Review of Predictive Models* white paper and modifies it to apply to the review of random forest models. A proposed glossary of random forest model terminology was also exposed.

b. Surplus Lines (C) Task Force

Mr. Travis said the Surplus Lines (C) Task Force has been working on modernizing the *Nonadmitted Insurance Model Act* (#870). A drafting group was formed and has met four times since the Summer National Meeting, and it is hoping to have a draft for the Task Force in early 2022. The Task Force has also adopted revisions to the *Trust Agreement for Alien Excess or Surplus Lines Insurers* that update the trust language and allow for a more streamlined approach after an insurer has left the *Quarterly Listing of Alien Insurers*. The Task Force has also adopted changes to the *Quarterly Listing of Alien Insurers* that will allow state insurance regulators access to alien insurer contact information. In 2022, the Task Force is planning to make improvements and updates to the International Insurers Department (IID) Plan of Operation.

c. Title Insurance (C) Task Force

Ms. Brangaccio said the Title Insurance (C) Task Force met Oct. 19 to: 1) discuss proposed charges; 2) hear a presentation from Demotech on observed and reported impacts of defalcations and escrow theft on the title industry; and 3) hear a presentation from the American Land Title Association (ALTA) on its new forms of Commitment, Owner's Policy, and Loan Policy, effective July 1. Ms. Brangaccio said the Task Force also met Nov. 16 to: 1) hear a presentation from AM Best on how the robust housing market has driven historic title industry performance and a presentation from ALTA on key changes to the homeowners policy of title insurance and ALTA endorsements; and 2) adopt its 2022 charges. She said revisions reflect removing outdated or completed charges and minor editorial changes for clarification of intent. She said late submissions by the CEJ were deferred and subsequently submitted to the Committee for consideration.

d. Workers' Compensation (C) Task Force

Commissioner Schmidt said the Workers' Compensation (C) Task Force has not met since the Summer National Meeting.

e. Cannabis Insurance (C) Working Group

Commissioner Lara said the Cannabis Insurance (C) Working Group met Oct. 21 to discuss the draft outline for an appendix to the *Understanding the Market for Cannabis Insurance* white paper. The appendix will provide an update on the regulatory issues related to insurance in the cannabis industry that have occurred since the white paper's adoption in July 2019. The appendix is anticipated to be adopted by the 2022 Summer National Meeting. The Working Group also discussed its 2022 charges, including a recommendation to collaborate with the Producer Licensing (D) Task Force to study whether cannabis-related convictions in states where cannabis is legalized for medical and/or recreational use are preventing individuals from being licensed as an agent or broker.

Commissioner Lara said the Working Group met Dec. 1 to hear a presentation from the University of Colorado on emerging scientific issues in the cannabis space. The Working Group learned the landscape of legality and received information that shows commercial cannabis products are constantly changing, with minor tetrahydrocannabinol (THC)-like cannabinoids (such as Delta-8 and Delta-10) able to be synthesized from legal hemp, thereby creating new legal, science, and health-related questions. The Working Group heard a presentation from the Cannabis Regulators Association (CANNRA) on cannabis policy and regulation trends. The Working Group learned there is now a broader focus on how policy is made, with an increased focus and prioritization of social equity, restorative justice, and public health and safety issues. The Working Group discussed the potential for information from the Task Force and its related NAIC databases that can assist the Working Group in assessing whether equity concerns exist. Commissioner Lara said the drafting group met several times to develop the outline and begin drafting an appendix for the *Understanding the Market for Cannabis Insurance* white paper.

f. Catastrophe Insurance (C) Working Group

Commissioner Chaney said the Catastrophe Insurance (C) Working Group met jointly with the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group Dec. 12 to hear from David Maurstad (FEMA) on the implementation of the new National Flood Insurance Program (NFIP) rating methodology known as Risk Rating 2.0, which is meant to more accurately match individual rates with risk. Commissioner Chaney said state insurance regulators appreciate their partnership with FEMA, and FEMA staff have been available with training and other assistance in helping consumers understand the rollout of these new rates. The Working Group and Advisory Group also heard from Edie Lohmann (FEMA), who reviewed the FEMA regions, regional flood insurance specialists, and how FEMA can engage with state insurance regulators on outreach, education, and training; technical assistance; NFIP claims, underwriting, and coverage; pre- and post-disaster support; and public awareness events and activities.

Commissioner Chaney said the Working Group and Advisory Group heard an update regarding the NAIC Catastrophe Resource Center. This website has information about NAIC and state resources, and it has recently been updated to include FEMA regional information and FEMA contact information. Louisiana provided a report on Hurricane Ida, including the department's response to the hurricane in assisting consumers and collecting claims data. Commissioner Chaney said an update was provided on a state survey that will help the Working Group in updating the *Catastrophe Modeling Handbook*. He said any states not yet completing the survey should reach out to the NAIC. The drafting group plans to meet in January to further discuss the survey and the drafting process. Commissioner Chaney said upcoming events involving FEMA include an NAIC/FEMA workshop for FEMA Region 6 tentatively planned for early 2022; an earthquake event to be hosted by the Missouri Department of Insurance (DOI) in May 2022; and the Cascadia Rising 2022 National Level Exercise.

g. Pet Insurance (C) Working Group

Mr. Beatty said the Pet Insurance (C) Working Group met three times to finalize edits to the Pet Insurance Model Act, with the Working Group adopting the model on Oct. 21. Following the adoption of the model, the Working Group met Dec. 1 to discuss the issue of the collection of pet insurance data, which arose as a topic of discussion during the development of the model. Because the only 2021 charge for the Working Group was the development of the model, the Working Group voted to ask the Committee to make the proper referrals to the Blanks (E) Working Group for the collection of data on the financial annual statement, as well as forwarding drafted referrals to the Market Analysis Procedures (D) Working Group to collect Market Conduct Annual Statement (MCAS) data and the Market Information Systems Research and Development (D) Working Group to collect complaint data.

h. Terrorism Insurance Implementation (C) Working Group

Commissioner Schmidt said the Terrorism Insurance Implementation (C) Working Group has not met since the Summer National Meeting.

i. Transparency and Readability of Consumer Information (C) Working Group

Mr. Bradner said the Transparency and Readability of Consumer Information (C) Working Group met Nov. 17 and has been working on best practices documents regarding disclosures for premium increases. These best practices documents include a disclosure document to be sent from insurers to consumers regarding premium increases (both capped and uncapped) and reasons for the premium increase; a rate/rule filing checklist that can be used by DOIs to ensure appropriate information is provided to the DOI regarding rate filings; and consumer education regarding ratemaking, rating factors, and premium discounts for both homeowners and auto insurance. Mr. Bradner said the disclosure document and the rate/rule filing checklist will be exposed for 30 days before the Working Group votes on adoption. He also said the Working Group has a proposed charge to study and evaluate ways to engage DOI communication to more diverse populations, such as rural communities. He said the Working Group plans to begin discussing this topic in January.

Commissioner Chaney made a motion, seconded by Commissioner Mais, to adopt the following task force and working group reports: Casualty Actuarial and Statistical (C) Task Force; Surplus Lines (C) Task Force; Title Insurance (C) Task Force; Workers' Compensation (C) Task Force; Cannabis Insurance (C) Working Group (Attachment Two); Catastrophe Insurance (C) Working Group (Attachment Three); Pet Insurance (C) Working Group (Attachment Four); Terrorism Insurance Implementation (C) Working Group; and Transparency and Readability of Consumer Information (C) Working Group (Attachment Five). The motion passed unanimously.

3. Heard Presentations Related to Auto Insurance Premium Refunds Resulting from the Pandemic

Commissioner Schmidt said the Consumer Federation of America (CFA) requested to speak about auto insurance premium refunds resulting from reduced driving due to the pandemic.

Doug Heller (CFA) said the CFA believes there was a duty to get more refunds to drivers over the past year and a half, and it is still not too late to do so. He said commissioners went to great lengths when the pandemic started to make sure the insurance market could function effectively, including granting premium payment extensions and cancellation moratoria. He said insurers were granted new means by which they could comply with a variety of statutory and regulatory requirements, and DOIs figured out how to work from home.

Mr. Heller said the CFA urged insurance departments to act to create a mandate and mechanism for insurers to return the excess premium they would collect as a result of the pandemic. He said insurers finally did give back premium, but it was not enough. He said insurance departments need to do more to prevent the excessive rates that data now documents. He said commissioners should revisit the question of pandemic premium refunds for drivers in their states and develop a plan for a systematic response should a similar situation happen in the future.

Mr. Heller said premiums were about the same in 2020 as they were in 2019 even with the premium refunds. He noted that incurred losses for 2020 fell dramatically. He said insurers claimed that severity has increased, but the volume of claims has fallen dramatically. The drop in auto claims led to a historically low industry-wide loss ratio for 2020. The 2020 loss ratio was more than 10 points lower than the average over the prior four years. Mr. Heller said rate decreases did not come close to offsetting the excessive prices consumers were being charged.

Mr. Heller noted that insurers have been telling investors their profits increased in 2020. He said AM Best identified that $12.9 billion was given back to policyholders. State Farm paid more than $44 million in bonuses to its top executives in 2020, dramatically higher than prior years, and spent $400 million to buy a nonstandard insurer. Geico increased its auto insurance underwriting income by 128% over 2019. Progressive paid investors $2.6 billion in January 2021 through its largest ever annual dividend to shareholders. Allstate paid its largest dividend ever and spent $4 billion to acquire another insurer. Mr. Heller said insurers are currently requesting rate hikes by saying claim histories from the pandemic should not apply. he said his research shows there is $29 billion that should still be returned from insurers' windfall profits. He said DOIs should consider conducting their own investigation and data call.

Rich Gibson (Academy) said the Academy will not weigh in on whether additional refunds are appropriate. He said rates are set on a prospective basis, estimating future costs. He said the pandemic added to the usual uncertainty. He noted that when insurers underestimate the needed rate, there is no recourse to recoup the shortfalls. Actuaries have practice and procedures for making these future cost estimates that are embodied in Actuarial Standards of Practice (ASOPs). Mr. Gibson noted that the Academy has published a paper titled *Considerations for Handling Auto Insurance Data in the Era of COVID-19*.

Mr. Gibson said the loss and loss adjustment expense ratio for 2020 was the best year over the last 10 years. He said generally, the auto insurance industry has not made an underwriting profit for auto liability for the nine years before 2020. These figures do not consider the investment income earned by the industry. Mr. Gibson also noted that industry aggregate data and averages may not be the best way to judge the appropriateness of refunds. State insurance regulators and others should look at company specific and state specific data. Mr. Gibson said insurers should continue to monitor their individual results and adjust rates as appropriate.

David F. Snyder (American Property Casualty Insurance Association—APCIA) said the APCIA is releasing a comprehensive report titled *U.S. Auto Insurance Market Still Struggling*. He said insurers and state insurance regulators quickly moved in-person operations to virtual to better serve consumers. He said state insurance regulators offered flexibility to insurers who in turn offered flexibility to customers in areas such as grace periods for late payments and waiving delivery exclusions.

Mr. Snyder said insurers provided more than $14 billion in premium relief and credits, reflecting the sudden and dramatic downturn in driving activity and losses. As the pandemic continued, the APCIA warned against mandating more premiums reductions as traffic speeds increased, as did serious accidents and eventually miles driven. Mr. Snyder said fatalities in 2020 increased by 7.2% over 2019, and 2020 fatalities were the highest in the last 10 years. He also said the first half of 2021 has seen an 18.4% increase in fatalities over 2020. He said rising insured losses are being driven by the intersection of more dangerous driving behavior, return of mileage, and rapid inflation affecting the cost of products and services covered by auto insurance. He said rising claims costs reflect the cost to repair and replace motor vehicles being seen in increased inflation.

Mr. Snyder said loss ratios dropped dramatically in 2020 but recovered in the last half of 2020, and they are rising throughout 2021, thus offsetting the short-term gains from 2020. He said state insurance regulators should maintain the long-term stability and solvency of the insurance markets. He asked whether premiums should be lowered in the short term and raised when losses rise, moving toward a rating system where consumers would get refunds or surcharges every month. He said such a system does not provide stability and solvency. He urged cooperation between state insurance regulators and industry to ramp up highway safety measures and a recognition of the dramatic inflation in the cost of products and services covered by auto insurance. He said state insurance regulators should avoid the temptation to grant short-term relief if the reality of that has been overtaken by losses that have occurred since. He said a short-term approach would lead to instability and potential solvency issues.

Commissioner Lara said the APCIA indicated that insurers should not be mandated to provide premium reductions based on short-term fluctuations in losses. He said 2020 was not just a fluctuation, as it resulted in consumers overpaying premiums by billions of dollars. Mr. Snyder said losses went down but then climbed back up, and the industry is advocating for a long-term strategy. He said insurers should not bill consumers midterm when losses increase. He said the long-term trends differ from short-term trends. Commissioner Lara said 2020 should not be ignored. He said the industry does not say wildfire losses over the past few years in California are just an anomaly. He said the industry raises rates when they see losses increase, but they do not give back premium when losses decrease dramatically. Mr. Snyder said if there is a demand of refunds based on short-term development, then there should be midterm increases when inflation takes over, but the industry believes in a long-term approach.

Commissioner Kreidler said insurers are keeping short-term gains to keep insurers above water. He said Washington received testimony from small businesses indicating their insurance was not covering business interruption, and those businesses could use help. He said state insurance regulators should be asking how much the auto insurance industry actually refunded. Mr.

Snyder said insurance companies operate in the long term, factoring in losses and working with state insurance regulators to ensure solvency is not at risk.

Tony Cotto (National Association of Mutual Insurance Companies—NAMIC) said rates are prospective, complex, and take time to develop. He said rates are designed to adjust to behavioral and experience patterns over years. He said in early 2020, vehicle miles traveled decreased dramatically at the onset of temporary closures due to the pandemic, but by summer 2020, miles driven were back within 10% of 2019. He said in acknowledgement of the overall reduction and driving during spring 2020, insurers returned more than $14 billion in premium to consumers.

Mr. Cotto said anyone advocating for additional rebates for 2020 should also advocate for additional premium charges to consumers for the years from 2010 to 2019. He said the important discussion should be on the fact that most costs involved in providing auto insurance are driven by external forces outside the control of auto insurance. He said highways are seeing more distracted and impaired driving; vehicles are becoming much more expensive to repair, as auto parts and labor costs are skyrocketing; and insurers are seeing more expensive medical care and more extreme weather events.

Mr. Cotto said NAMIC supports consumer choice, data privacy, and sound underwriting. He said the industry wants to join state insurance regulators to find effective ways to combat riskier roads and higher prices.

Commissioner Lara asked if 2020 was an extraordinarily profitable year for insurance companies. Mr. Cotto said the cost of providing auto coverage is increasing. He said $14 billion in premium refunds was returned to consumers in 2020, but death rates rose even though miles driven fell. Commissioner Lara said it was a record profitable year in 2020 for auto insurers.

Commissioner Kreidler said the industry is saying there were unanticipated gains but then also unanticipated losses, so the industry wants to keep the money. He said the industry is fighting state insurance regulators in providing data about these issues. He said if insurers make unanticipated gains, they have a responsibility to their policyholders. He asked why NAMIC is resisting providing data to state insurance regulators. Mr. Cotto said NAMIC would be happy to speak with individual state departments.

Birny Birnbaum (CEJ) said the pandemic led to such reduced driving that claim payments declined by 20% from expected levels, and rates became excessive by over $40 billion in 2020. He said traditional actuarial ratemaking methods and traditional regulatory rate filing approaches were not suited to the problem. He said rates in effect at the beginning of March 2020 anticipated $175 billion of claims out of the expected $260 billion in premium. The reported claims in 2020 were about $35 billion, 20% less than expected. Mr. Birnbaum said after insurer relief, there is about a $30 billion windfall profit for the industry, which is about $125 per insured vehicle or 10% of total premium.

Mr. Birnbaum said any increase in claims severity in 2020 was dwarfed by the reduction in claim frequency. He said loss ratios have returned to normal in 2021, but insurers are not losing money. He said Progressive reported $3 billion in profits year-to-date (YTD). He also said insurers are seeking rate increases. The 20% reduction in claims was not offset by losses in 2021. Mr. Birnbaum said windfall profits were given to investors or management. He noted that insurer rate filings are claiming 2020 was an anomaly and should be ignored. He noted that the 2020 loss ratio was over 10 points lower than historical results. He said state insurance regulators should learn that more timely data collection is needed to better monitor the market and move to a monthly premium relief program during an emergency.

Erica Eversman (Automotive Education & Policy Institute—AEPI) said if there is no state insurance regulator requirement, insurers do as they see fit. She said the National Highway Traffic Safety Administration (NHTSA) does not collect the appropriate universe of data to determine what causes vehicle fatalities. She said obtaining prior claims information from auto insurers about whether a vehicle had been previously damaged and repaired would be valuable information. She said the industry should not use fatalities as justification for not refunding premiums to consumers. She said part of the reason the number of vehicle fatalities is growing is because insurers have increasing control over vehicle repairs in terms of dictating repair procedures. She said insurers should voluntarily provide the NHTSA with auto claims data.

4. Adopted its 2022 Proposed Charges

Jennifer Garder (NAIC) said the Committee's 2022 proposed charges were posted and distributed on Nov. 19. She said the Committee received comments from the CEJ on Dec. 9. Leadership of the Casualty Actuarial and Statistical (C) Task Force and the Title Insurance (C) Task Force discussed those comments, and they are recommending two additional charges. For the Statistical Data (C) Working Group, a proposed third charge would read, "[i]mplement the expedited reporting and publication of average auto and average homeowners premium portions of the annual Auto Insurance Database and Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance."

For the Title Insurance (C) Task Force, a proposed fifth charge would read, "[r]eview current rate regulation practices."

The Committee had no additional discussion on the two recommended revisions. Commissioner Lara made a motion, seconded by Mr. Travis, to adopt the Committee's 2022 proposed charges with the two additions (Attachment Six).

5. Heard a Report on Federal Activities

Brooke Stringer (NAIC) said the federal Infrastructure Investment and Jobs Act has been signed into law and includes such items as $5 billion for FEMA flood mitigation assistance and pre-disaster hazard mitigation grants, as well as a provision requiring that auto manufacturers install impaired-driving technology in new vehicles. She said the U.S. House of Representatives (House) passed a $1.7 trillion reconciliation bill in November that includes policy priorities on climate, jobs, and health care into one massive bill. This bill has not yet passed the U.S. Senate (Senate). The proposed bill forgives the NFIP's $20 billion debt, provides funding for flood mapping and a means-tested affordability program, provides $145 million to FEMA for updating and enforcing hazard resistant codes and standards and grants to state and local governments, and provides $121 million to the U.S. Department of Labor's (DOL's) Office of Workers' Compensation Programs (OWCP) for activities of the OWCP; but it does not include a specific reference to oversight of state workers' compensation programs that were included in previous versions and raised concerns from the industry.

Ms. Stringer said the NFIP was extended as part of a short-term funding bill through Feb. 18, 2022. The NAIC continues to reiterate its support for a long-term reauthorization and urging prompt action before the program expires. Ms. Stringer noted that there is a bipartisan/bicameral five-year reauthorization bill (S. 3128/H.R. 5082) from U.S. Sen. Bob Menendez (D-NJ), U.S. Sen. Bill Cassidy (R-LA), U.S. Congressman Frank Pallone (D-NJ), and U.S. Congressman Clay Higgins (R-LA). The NAIC does not have a position on this bill, but it does support U.S. Sen. Rick Scott (R-FL) and U.S. Rep. Kathy Castor's (D-FL) bill, the Flood Insurance Consumer Choice Act of 2021 (S. 2915/H.R. 4669), which would clarify that a flood insurance policy purchased in the private market can count as "continuous coverage" under the terms of the NFIP, and policyholders could return to the NFIP without losing any previous subsidy.

Ms. Stringer said FEMA began implementing its new NFIP pricing methodology, Risk Rating 2.0, in October. She said a bipartisan group of coastal senators tried unsuccessfully to urge FEMA to postpone Risk Rating 2.0, warning about the impact of premium hikes, and introduced legislation to try to delay it. Risk Rating 2.0 will remain a key issue for NFIP reauthorization, particularly with phase two rolling out in April 2022.

Ms. Stringer reported that U.S. Congresswoman Carolyn Maloney (D-NY) reintroduced the Pandemic Risk Insurance Act of 2021 (PRIA) (H.R. 5823), which would establish a federal backstop for pandemic risk. PRIA would require that insurers make available in all their P/C insurance policies coverage for insured losses due to covered public health emergencies. The NAIC is monitoring this legislation.

Ms. Stringer said the U.S. Congress (Congress) has also focused on legislation regarding access to financial services for legitimate cannabis businesses, which has garnered bipartisan support. The House has passed the Secure and Fair Enforcement (SAFE) Banking Act (H.R. 1996/S. 910) several times, which would provide a safe harbor from violations of federal law for those engaged in the business of insurance participating in cannabis industry activity that is permissible under state law. There were recent efforts to add the bill to the annual defense authorization bill, but ultimately, they were not successful, as some Democrats wanted to include broader cannabis policy reforms. The NAIC supports the SAFE Banking Act, as well as the Clarifying Law Around Insurance of Marijuana (CLAIM) Act (S. 862), which ensures that legal marijuana and related businesses have access to comprehensive insurance coverage.

Ms. Stringer said NAIC staff received a Congressional inquiry regarding a problem one of their constituents had with renters insurance/military housing. NAIC staff previously circulated a news article to Committee members. There was a military family with a renters insurance policy that had a claim denied because the rented house was through a public-private venture and not "government controlled" as the policy specified. A Congressional office is exploring federal legislative solutions to prevent this from happening in the future. Ms. Stringer said NAIC staff plan to reach out to industry to understand if it is common practice that a renters policy differentiates between government housing and private housing in terms of coverages on military bases.

Having no further business, the Property and Casualty Insurance (C) Committee adjourned.

12-15 CCmte_min.docx

Date: 3/10/22

Virtual Meeting
(in lieu of meeting at the 2022 Spring National Meeting)

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE
Tuesday, March 8, 2022
2:00 – 3:00 p.m. ET / 1:00 – 2:00 p.m. CT / 12:00 – 1:00 p.m. MT / 11:00 a.m. – 12:00 p.m. PT

Meeting Summary Report

The Casualty Actuarial and Statistical (C) Task Force met March 8, 2022. During this meeting, the Task Force:

1. Adopted its Feb. 18, 2022; Feb. 8, 2022; Jan. 24, 2022; Jan. 10, 2022; and 2021 Fall National Meeting minutes, which included the following action:
   A. Adopted the *2018/2019 Auto Insurance Database Report* (Auto Report).
   B. Adopted the *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report).
   C. Adopted the *2020 Competition Database Report* (Competition Report).

2. Adopted the report of the Actuarial Opinion (C) Working Group, which met March 1, Feb. 1, and Jan. 18 and took the following action:
   A. Adopted its proposed Property/Casualty (P/C) Statement of Actuarial Opinion (SAO) instructions to send to the Blanks (E) Working Group.

3. Adopted the report of the Statistical Data (C) Working Group, which met Jan. 27 and took the following action:
   A. Adopted a plan to speed up the timeline of the Homeowners Report by collecting data from the most recent data year and collecting two years of data in 2022 to catch up to the new timeline.
   B. Decided to begin a review of the *Statistical Handbook*.

4. Decided next steps in answer to the referral Project #2019-49: Retroactive Reinsurance Exception. A subgroup will draft proposed revisions to *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance* and Schedule P instructions.

5. Adopted the regulatory review of random forest models and an associated terminology document.

6. Heard a report about coordination with the Innovation, Cybersecurity, and Technology (H) Committee and Special (EX) Committee on Race and Insurance Workstream #3.

7. Received a presentation from the American Academy of Actuaries (Academy) about its P/C projects.

8. Discussed NAIC loss cost multiplier forms. A small group will draft proposed changes.

SharePoint/NAIC Support Staff Hub/Member Meetings/Spring 2022 National Meeting/Summaries/Final Summaries/CASTF.docx

NAIC NATIONAL MEETING SPRING 2022

Date: 4/4/22

2022 Spring National Meeting
Kansas City, Missouri

TITLE INSURANCE (C) TASK FORCE
Tuesday, April 5, 2022
9:00 – 10:00 a.m.

Meeting Summary Report

The Title Insurance (C) Task Force met April 5, 2022. During this meeting, the Task Force:

1. Adopted its 2021 Fall National Meeting minutes.

2. Received a report on how cyber-wire fraud cases referred by title agents are handled at the Virginia Bureau of Insurance. Discussion included an overview of requirements under VA Code § 38.2-625 Notice to Commissioner.

3. Heard a presentation on closing protection letter (CPL) language. The presentation included examples of state-specific information and how language differs in states with various exclusions.

4. Received a report on how CPLs are used in Louisiana and Ohio from a statutory and regulatory framework. Discussion included an overview of their purpose, relevant statues, and observations as to other jurisprudence.

5. Held a question-and-answer session on the cyber-wire fraud report and presentations.

6. Discussed its 2022 work plan. In the interest of time, comments were asked to be submitted to NAIC staff. The work plan includes: 1) holding a regulator-only meeting with the Consumer Financial Protection Bureau (CFPB); 2) discussion on how use and language of CPLs vary by state; 3) a presentation on the post-pandemic future of the title insurance industry; 4) a roundtable discussion on rate regulation; 5) a presentation from industry on complications that arise from the required use of plans by some states that include rules or forms tailored to other lines of insurance; and 6) review of Section 15C of the *Title Insurers Model Act* (#628) to determine if there is a need to make a recommendation to remove the requirement for on-site review of underwriting and claims practices.

SharePoint/NAIC Support Staff Hub/Member Meetings/Spring 2022 National Meeting/Summaries/Final Summaries/Title Insurance Task Force Summary.docx

NAIC NATIONAL MEETING SPRING 2022

Date: 3/28/22

Virtual Meeting
(in lieu of meeting at the 2022 Spring National Meeting)

WORKERS' COMPENSATION (C) TASK FORCE
Monday, March 21, 2022
3:30 – 4:30 p.m. ET / 2:30 – 3:30 p.m. CT / 1:30 – 2:30 p.m. MT / 12:30 p.m. – 1:30 p.m. PT

Meeting Summary Report

The Workers' Compensation (C) Task Force met March 21, 2022. During this meeting, the Task Force:

1. Received a federal update regarding the monitoring of state workers' compensation programs. There was language included in the original Build Back Better Act that provided for funding to the Department of Labor (DOL) Office of Workers' Compensation Programs (OWCP) for "monitoring of State workers' compensation programs." The language in the bill that passed in the House of Representatives in November 2021 was an updated bill that did not include a specific reference to the oversight of state workers' compensation programs. The outcome of the bill in the Senate remains uncertain.

2. Heard updates on cannabis, independent contractor, and single-payer health care state and federal legislation, as related to workers' compensation. There has been legislation in each of these areas at both the state and federal levels, and the National Council on Compensation Insurance (NCCI) tracked more than 1,000 state and federal bills.

SharePoint/NAIC Support Staff Hub/Member Meetings/Spring 2022 National Meeting/Summaries/Final Summaries/WCTF Summary.docx

Date: 3/25/22

Virtual Meeting
(in lieu of meeting at the 2022 Spring National Meeting)

CANNABIS INSURANCE (C) WORKING GROUP
Thursday, March 24, 2022
12:00 – 1:00 p.m. ET / 11:00 a.m. – 12:00 p.m. CT / 10:00 – 11:00 a.m. MT / 9:00 – 10:00 a.m. PT

Meeting Summary Report

The Cannabis Insurance (C) Working Group met March 24, 2022. During this meeting, the Working Group:

1. Adopted its 2021 Fall National Meeting minutes, which included the following action:
   A. Adopted its Oct. 21, 2021, minutes.
   B. Received a status report on the drafting of the updated *Understanding the Market for Cannabis Insurance* white paper.
   C. Discussed the potential to collaborate with the Producer Licensing (D) Task Force.
   D. Heard a presentation from the University of Colorado on emerging scientific issues in the cannabis space.
   E. Heard a presentation from the Cannabis Regulators Association (CANNRA) on cannabis policy and regulation trends.

2. Heard a presentation on the state of the union in the cannabis insurance industry from Jencap Specialty Insurance Services and Miller Nash LLP. The presenters discussed the fast growth in the cannabis market, the need for greater depth of coverage options on certain insurance products, and legal implications on coverage concerns.

3. Heard a report on federal cannabis-related legislative activities from NAIC staff.

4. Requested that feedback on its 2022 work plan be sent to NAIC staff. The work plan includes monitoring cannabis-related federal legislation, finishing updates on and moving for adoption of the *Understanding the Market for Cannabis Insurance* white paper by the Fall National Meeting, and hearing presentations and panel discussions on emerging issues.

SharePoint/NAIC Support Staff Hub/Member Meetings/Spring 2022 National Meeting/Summaries/Cannabis Insurance (C) Working Group-Summary

Date: 4/5/22

2022 Spring National Meeting
Kansas City, Missouri

JOINT SESSION OF THE
CATASTROPHE INSURANCE (C) WORKING GROUP
NAIC/FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) (C) ADVISORY GROUP
Monday, April 4, 2022
3:00 – 5:30 p.m.

Meeting Summary Report

The Catastrophe Insurance (C) Working Group met in joint session with the NAIC/FEMA (C) Advisory Group April 4, 2022. During this meeting, the Working Group and Advisory Group:

1. Adopted the Catastrophe Insurance (C) Working Group's March 4 minutes, which included the following action:
   A. Adopted its 2021 Fall National Meeting minutes.
   B. Heard a presentation regarding a survey sent to the states about the *Catastrophe Computer Modeling Handbook* (Handbook). Twenty-two states responded to the survey, and NAIC staff indicated that the purpose of the survey was to help the Working Group determine what information to include in the Handbook to make it a useful tool for state insurance regulators.
   C. Discussed next steps regarding the Handbook. The Working Group created a drafting group to begin discussions and drafting updates to the Handbook. The drafting group will add updates to the Handbook addressing the perils of flood, and possibly convective storms and wildfire. The Handbook will address similarities and differences regarding state approaches to the use of catastrophe models, and the drafting group will consider adding a chart to the appendix that compiles a list of bulletins and regulations used around the country.

2. Adopted the NAIC/FEMA (C) Advisory Group's March 25 minutes, which included the following action:
   A. Received a presentation regarding the status of the National Flood Insurance Program's (NFIP) Risk Rating 2.0. FEMA began rating existing policyholders under the new methodology April 1.
   B. Received a presentation from FEMA regarding the NFIP's Community Rating System (CRS). The CRS provides NFIP premium discounts to communities that achieve specific metrics.

3. Received an update regarding federal legislation. The NFIP is operating under an extension through Sept. 30, and the NAIC continues to support a long-term reauthorization. Some of the key bills regarding reauthorization of the NFIP include: a) the NFIP Reauthorization and Reform Act of 2021; and b) the Continuous Coverage for Flood Insurance Act. Risk Rating 2.0 began phase two of its implementation on April 1. A bipartisan group of coastal senators have tried unsuccessfully to urge FEMA to postpone Risk Rating 2.0 due to concern regarding premium hikes. The following bills have been introduced in the U.S. Senate (Senate): a) the Flood Insurance Pricing Transparency Act; and b) the Community Disaster Resilience Zones Act of 2022.

4. Discussed Handbook updates. A drafting group of several state insurance regulators has been formed. The state insurance regulators who are members of the drafting group met March 29 to begin discussions regarding the drafting of the Handbook's updates. Future drafting group calls will include interested parties that have asked to be a part of the drafting group calls.

5. Received an update from the Iowa Department of Insurance (DOI) on recent tornadoes. Iowa has had several recent catastrophic events in the past year. These events included a derecho, severe convective storms, and most recently tornados.

6. Received an update from the Tennessee DOI on recent catastrophic events. Tennessee has experienced several catastrophic events in the past few months. These catastrophic events have included flooding, tornadoes, and wildfires.

7. Received an overview of FEMA Regional Meetings. The most recent FEMA Regional meeting was held virtually with FEMA Regions 8, 9, and 10 in 2021. FEMA Region 4 formed a Working Group following their regional meeting and they are meeting every other month with FEMA colleagues to discuss issues related to disasters. FEMA Region 6 will hold a workshop on May 3 and May 4 in Oklahoma City; the event will be held virtually for those that are unable to attend in person.

8. Received an Update on the NAIC Catastrophe Resource Center. NAIC staff is going to send out a survey to states soliciting feedback from state insurance regulators to help better meet their needs.

SharePoint/NAIC Support Staff Hub/Member Meetings/Spring 2022 National Meeting/Summaries/Final Summaries/CatFEMA.docx

NAIC

NATIONAL MEETING

SPRING 2022

KANSAS CITY

Private Passenger Auto Premium and Loss Data 2012-2021

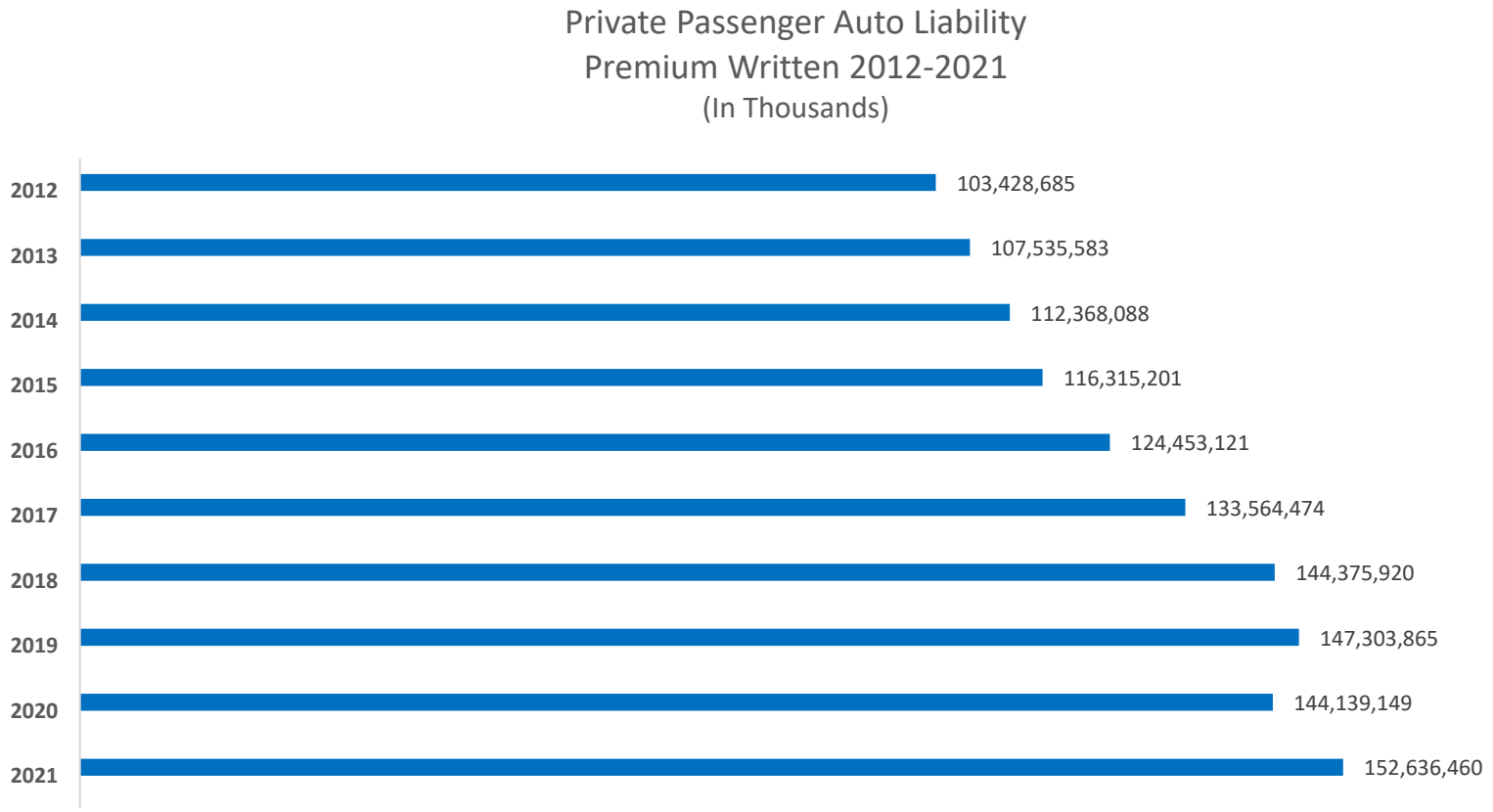
Property and Casualty Insurance (C) Committee

April 7, 2022

Private Passenger Auto Liability

Premium and Premium Growth 2012-2021

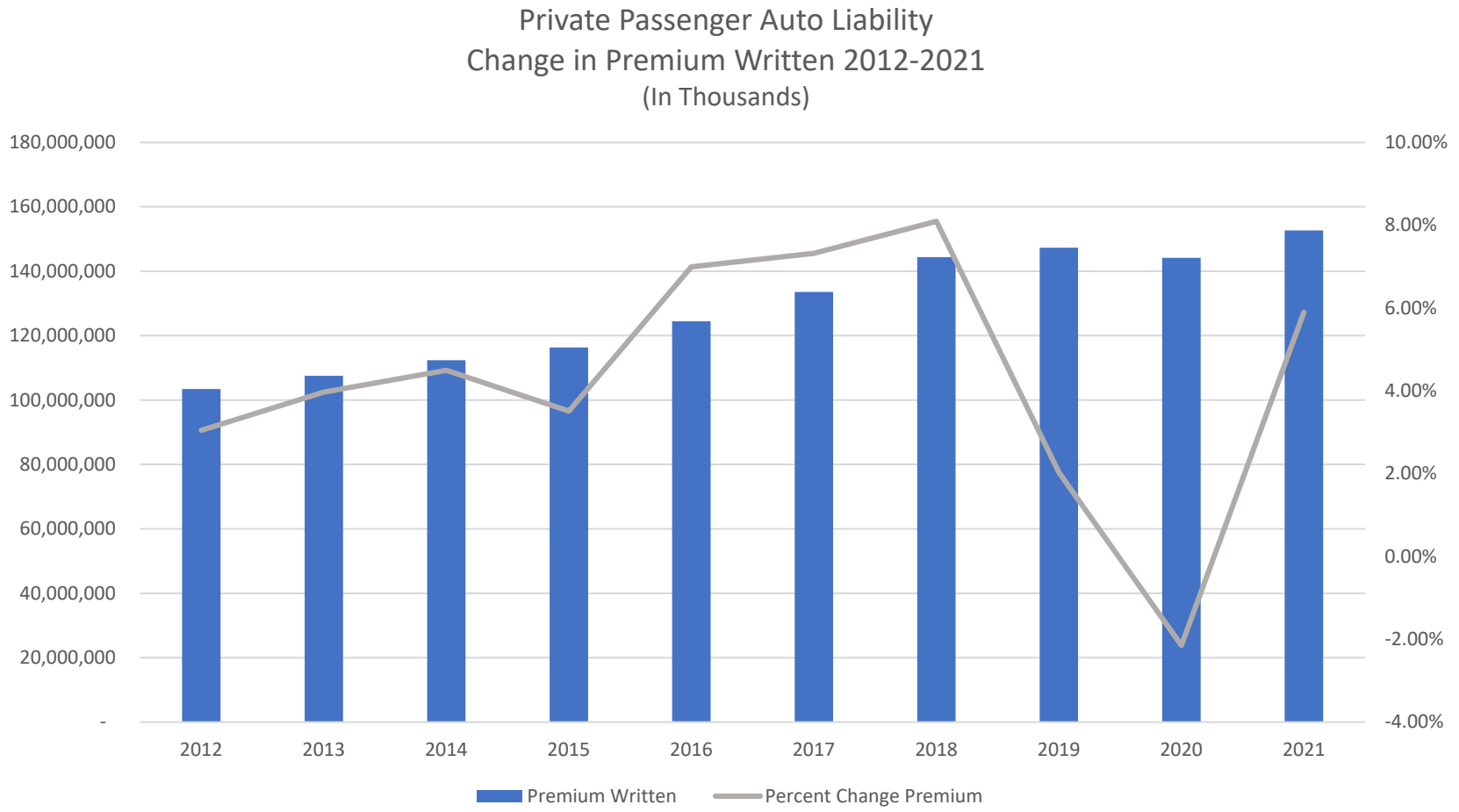
- Private Passenger Auto Liability (NAIC Lines 19.1,19.2) premium written increased every year except 2020, likely due to premium adjustments during the COVID-19 pandemic



Private Passenger Auto Liability

Premium and Premium Growth 2012-2021

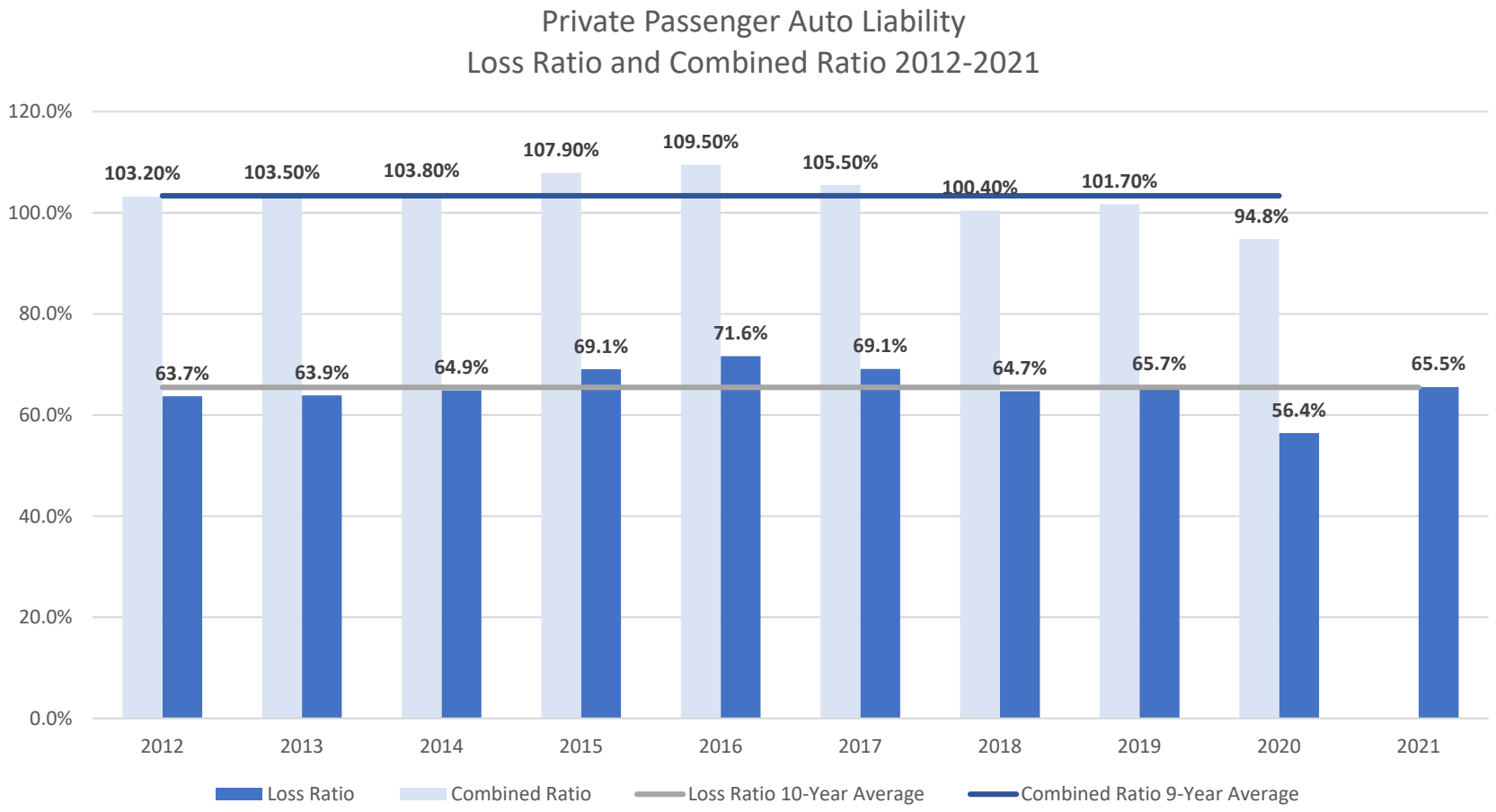
- Private Passenger Auto Liability (NAIC Lines 19.1,19.2) premium has increased 47.58% from 2012 to 2021



Private Passenger Auto Liability

Loss Ratio and Combined Ratio 2012-2021

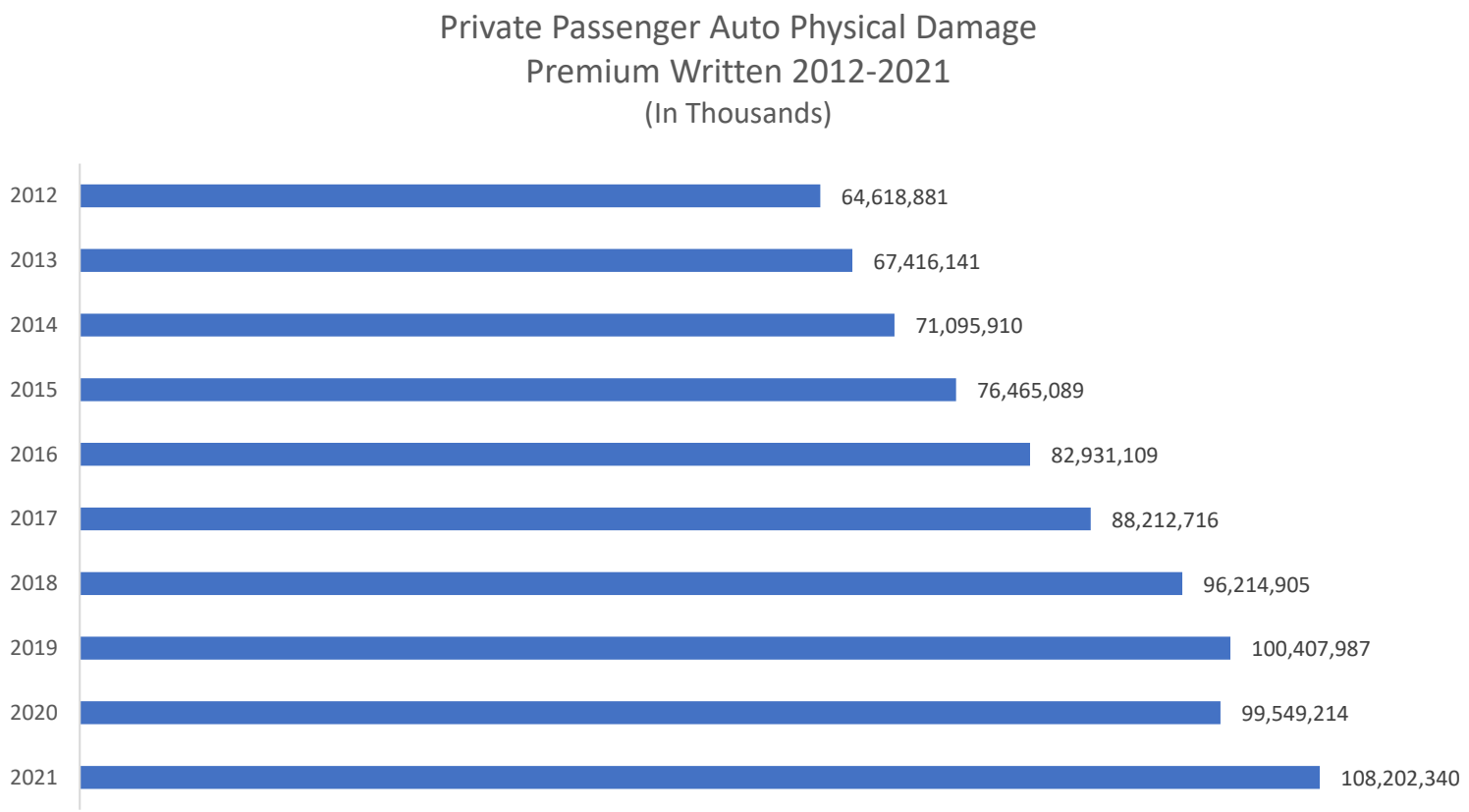
- Loss Ratio 10-Year Average for PPA Liability is 65.5%
- Combined Ratio 9-Year Average for PPA Liability is 103.4%
- Combined ratio not yet available for 2021



Private Passenger Auto Physical Damage

Premium and Premium Growth 2012-2021

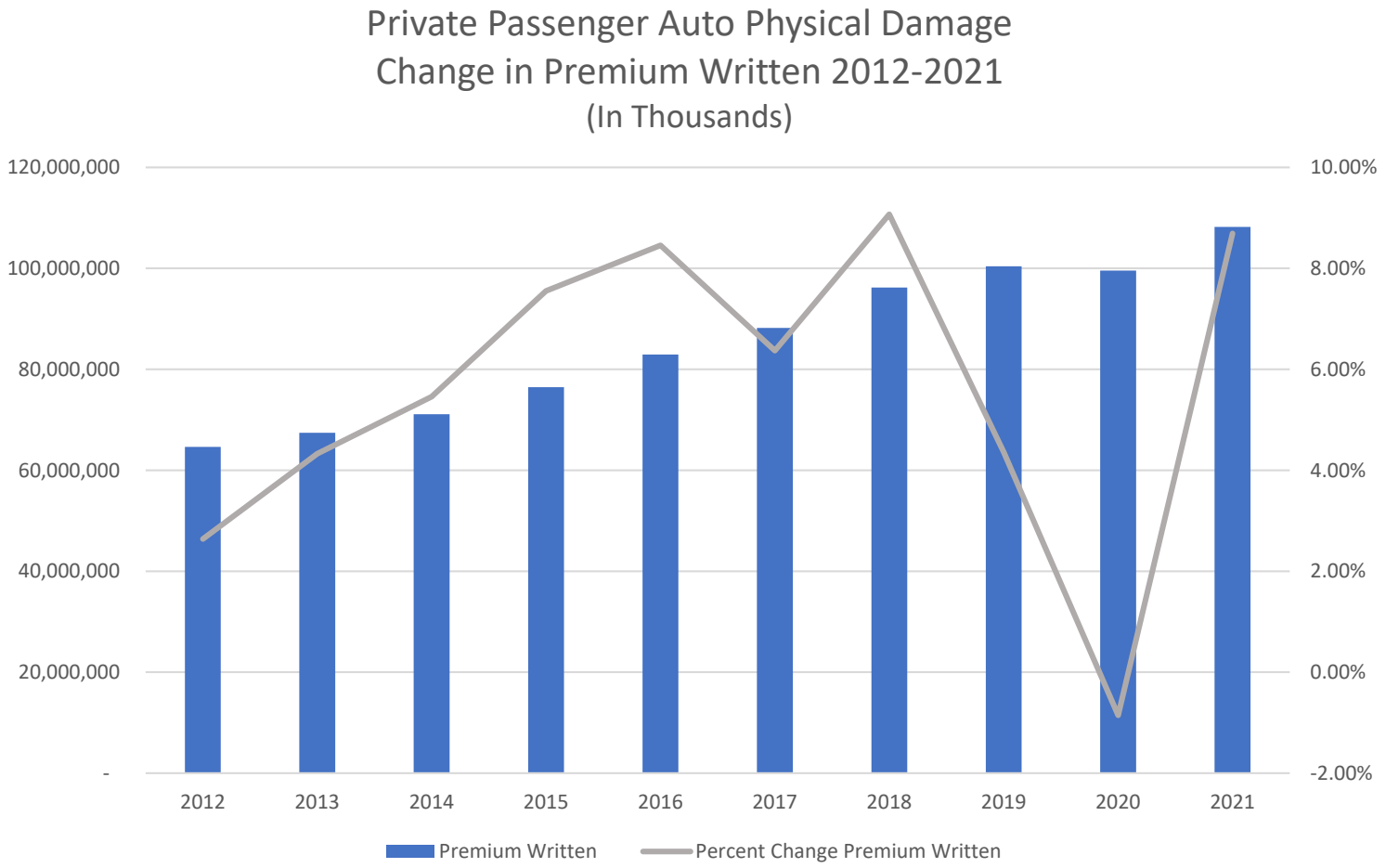
- Private Passenger Auto Physical Damage (NAIC Line 21.1) premium written increased every year except 2020, likely due to premium adjustments during the COVID-19 pandemic



Private Passenger Auto Physical Damage

Premium and Premium Growth 2012-2021

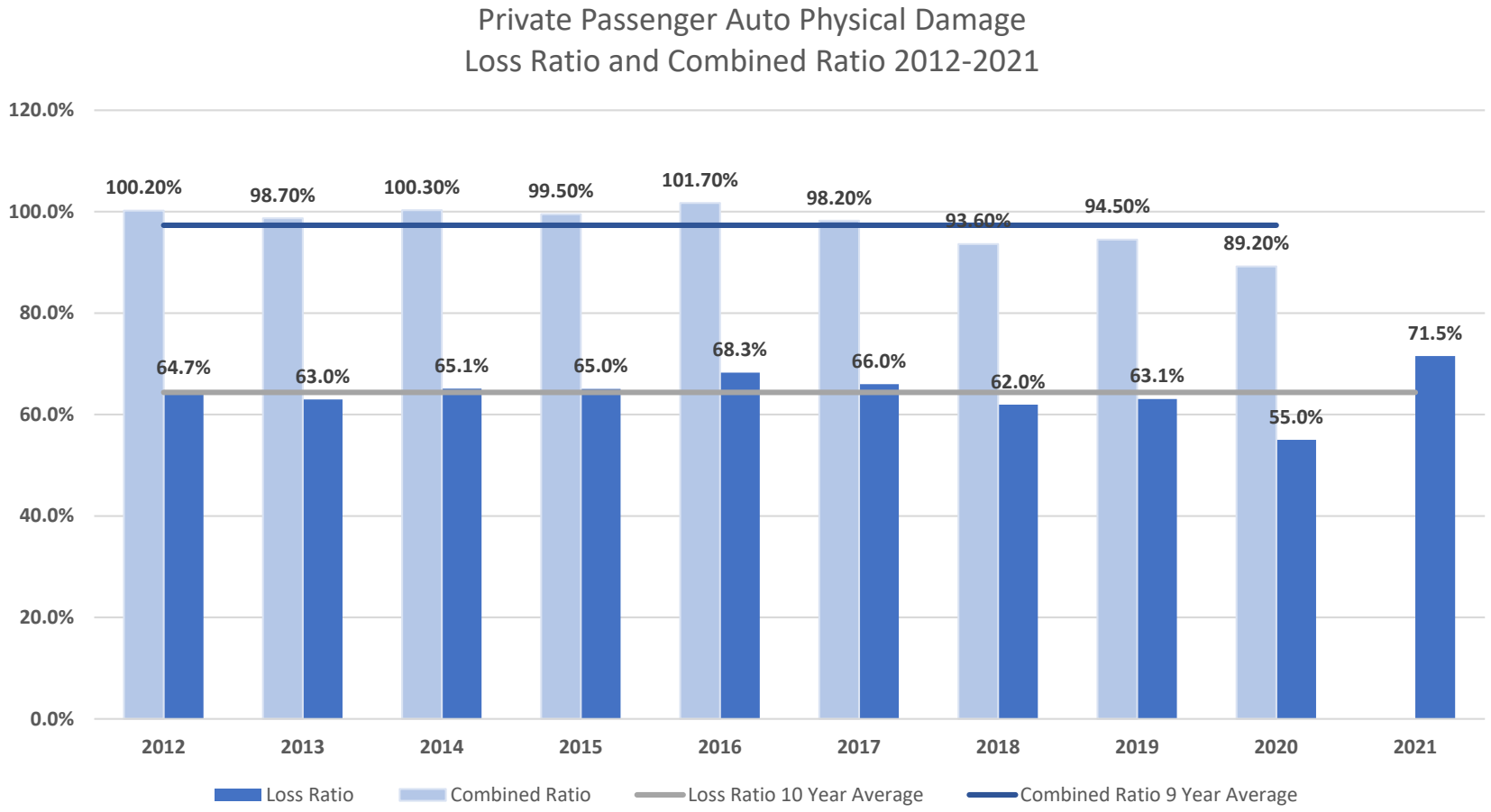
- Private Passenger Auto Physical Damage (NAIC Line 21.1) premium has increased 67.45% from 2012 to 2021



Private Passenger Auto Physical Damage

Loss Ratio and Combined Ratio 2012-2021

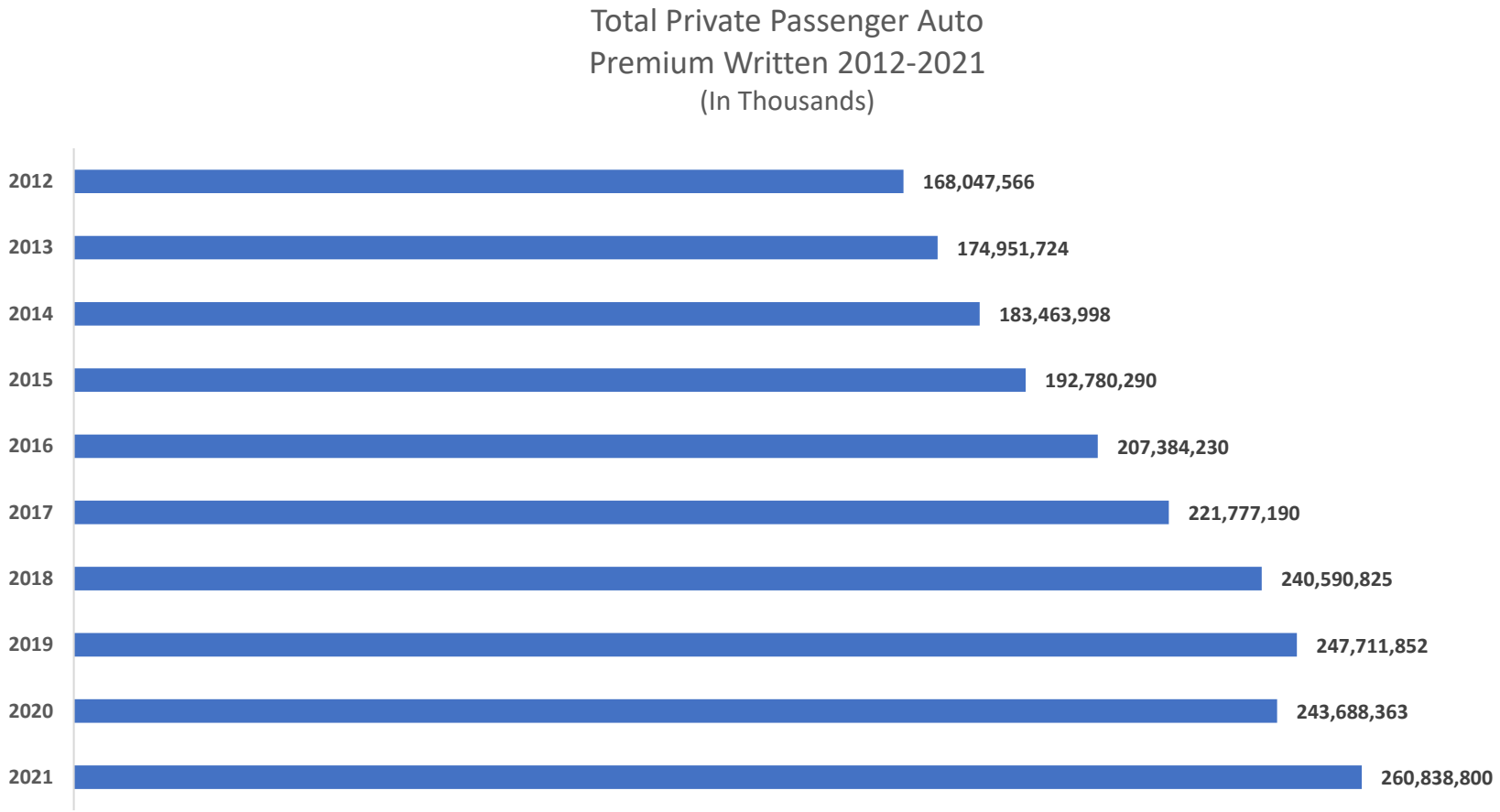
- Loss Ratio 10-Year Average for PPA PD is 64.4%
- Combined Ratio 9-Year Average for PPA PD is 97.3%
- Combined ratio not yet available for 2021



Total Private Passenger Auto

Premium and Premium Growth 2012-2021

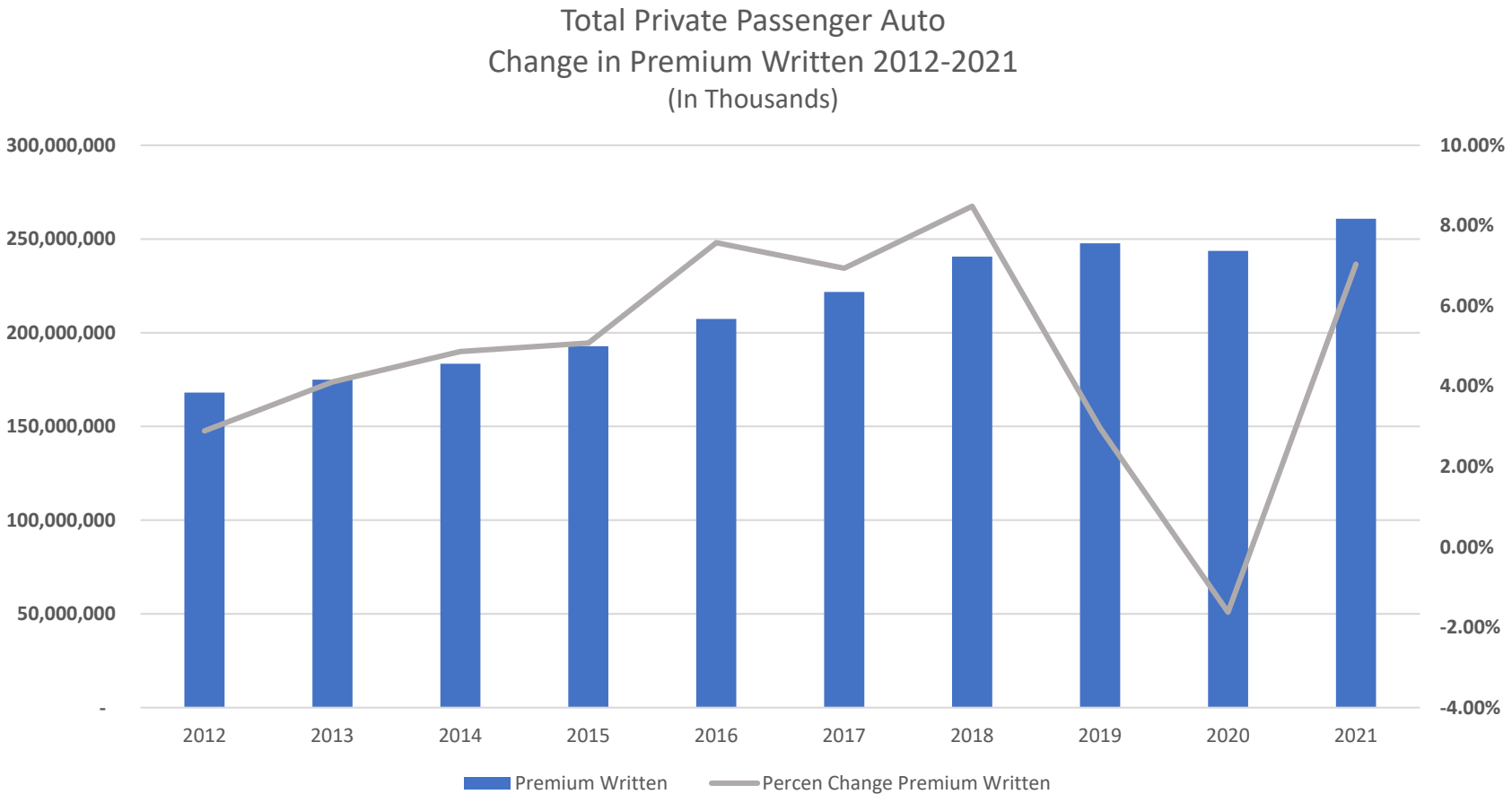
- Total Private Passenger Auto (NAIC Lines 19.1,19.2, 21.1) premium written increased every year except 2020, likely due to premium adjustments during the COVID-19 pandemic



Total Private Passenger Auto

Premium and Premium Growth 2012-2021

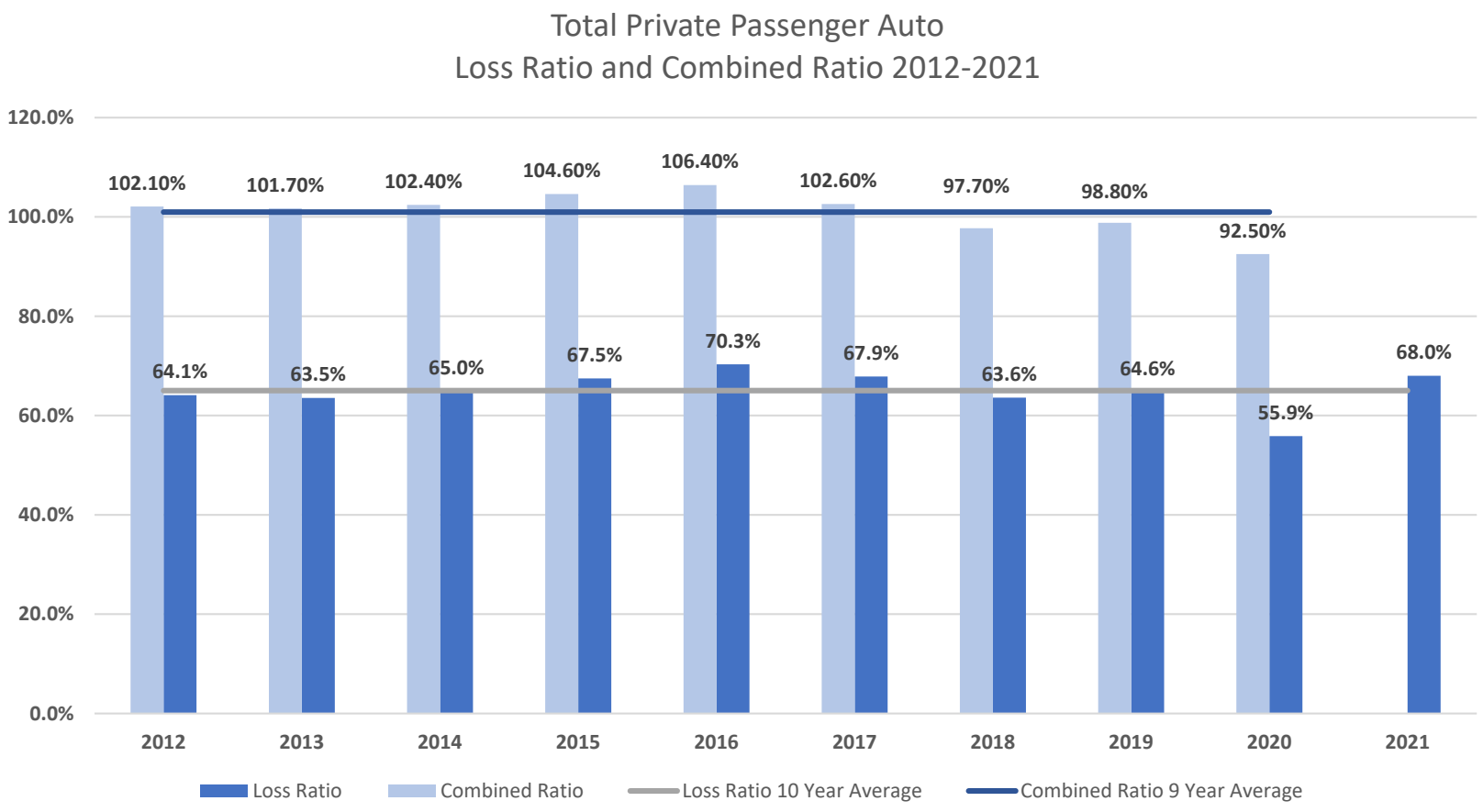
- Total Private Passenger Auto (NAIC Lines 19.1,19.2, 21.1) premium has increased 55.2% from 2012 to 2021



Total Private Passenger Auto

Loss Ratio and Combined Ratio 2012-2021

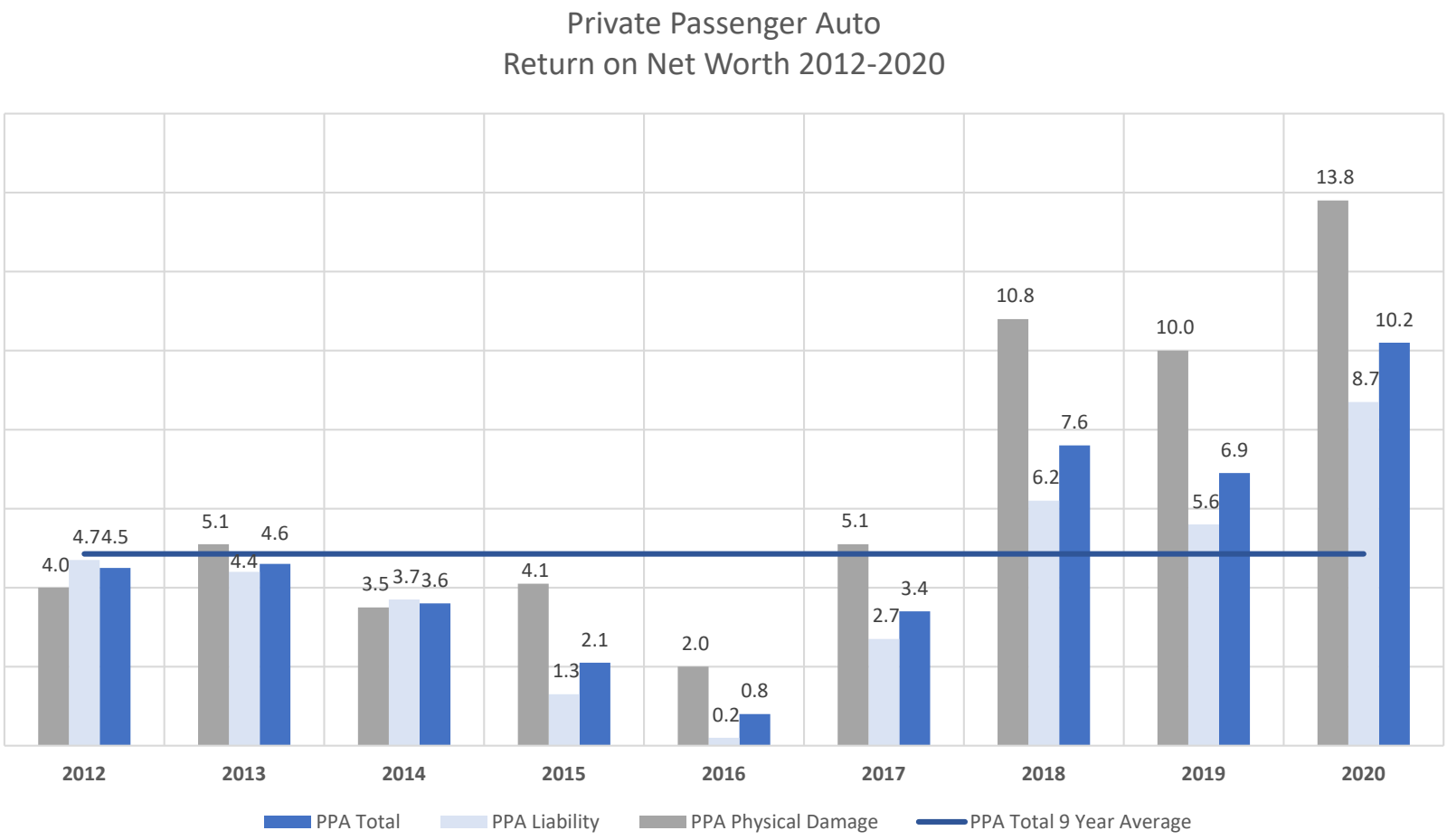
- Loss Ratio 10-Year Average for PPA is 65.0%
- Combined Ratio 9-Year Average for PPA is 100.98%
- Combined ratio not yet available for 2021



Private Passenger Auto

Return on Net Worth 2012-2020

- Private Passenger Auto Physical Damage Return on Net Worth in 2020 increased 38% from the previous year.
- PPA Liability Return on Net Worth in 2020 increased 55% from the previous year.
- PPA Total Return on Net Worth 9-Year Average is 4.86%
- Return on Net Worth data is taken from the Profitability by Line by State Report. 2021 data is not yet available.



AUTOMOTIVE INSURANCE LOSS COST TRENDS

NAIC NATIONAL MEETING SPRING 2022

SUSANNA GOTSCH, SENIOR DIRECTOR INDUSTRY ANALYST
CCC INTELLIGENT SOLUTIONS INC.

APRIL 7, 2022

CCC: The SaaS platform for the P&C insurance economy

SaaS solutions to digitize **insurer** workflows and drive optimal decisions and customer outcomes

Solutions to enhance **OEM** value & customer experience across vehicle lifecycle

Integrations and data to connect **other participants** to CCC network

INSURERS
300[1,3]+

OEMs
All major OEMS[3]

OTHERS
Lenders, Fleets, Salvage, Tow, Ridesharing, Diagnostics, & more

Mission-critical (99.96% uptime)

AI-enabled

CCC Cloud

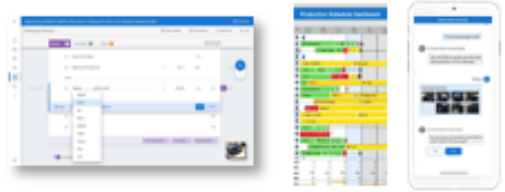
Enabling experiences for 40M+ consumers annually

100% SaaS

30K+ companies

REPAIR FACILITIES
26,000[2,3]+

PARTS SUPPLIERS
4,000[3]+



Complete **repair facility** operating system to attract, deliver, and manage quality repairs

E-commerce solutions to enable **parts** sales across CCC network

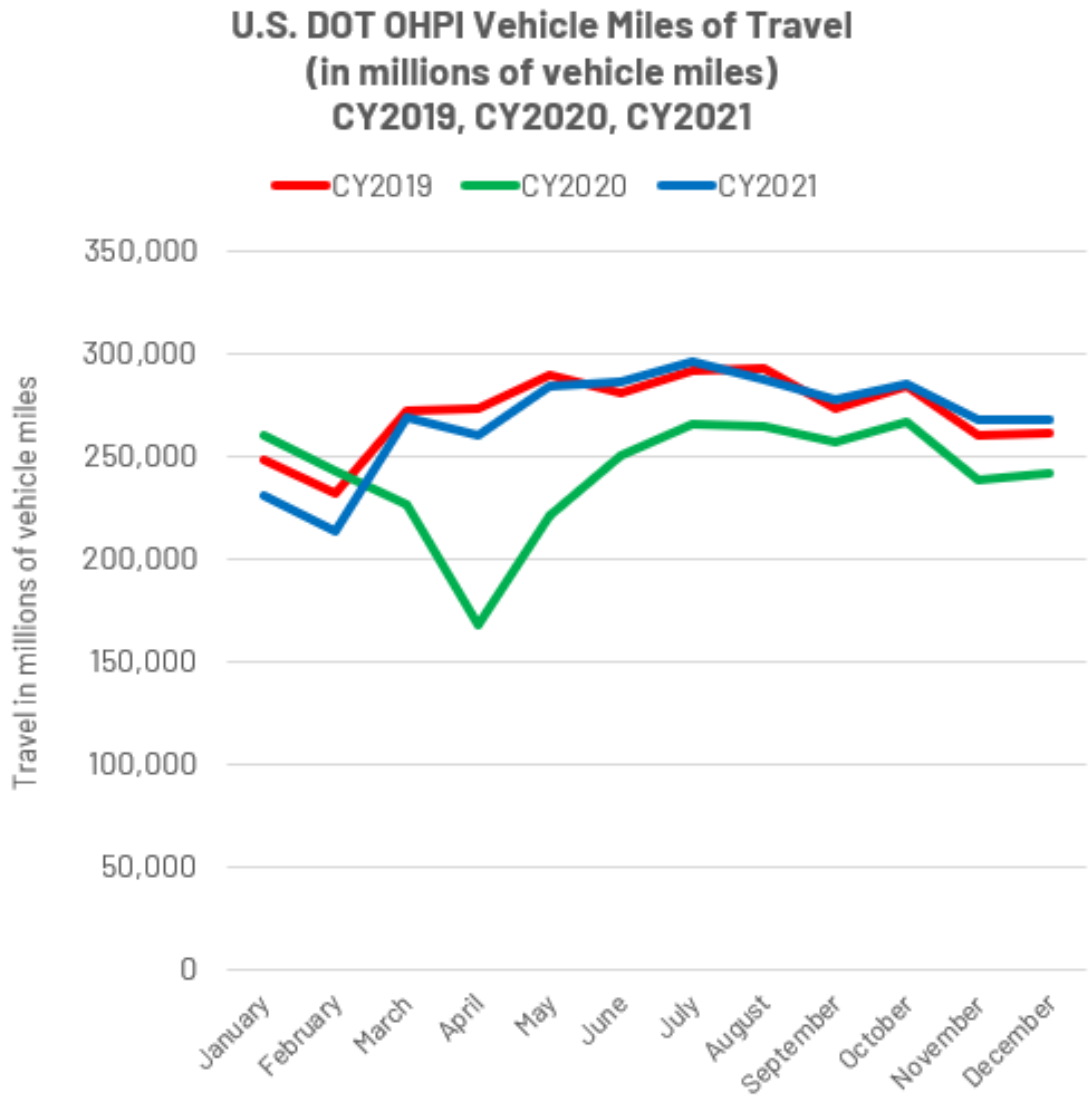
Long-term opportunities for **new markets and solutions**

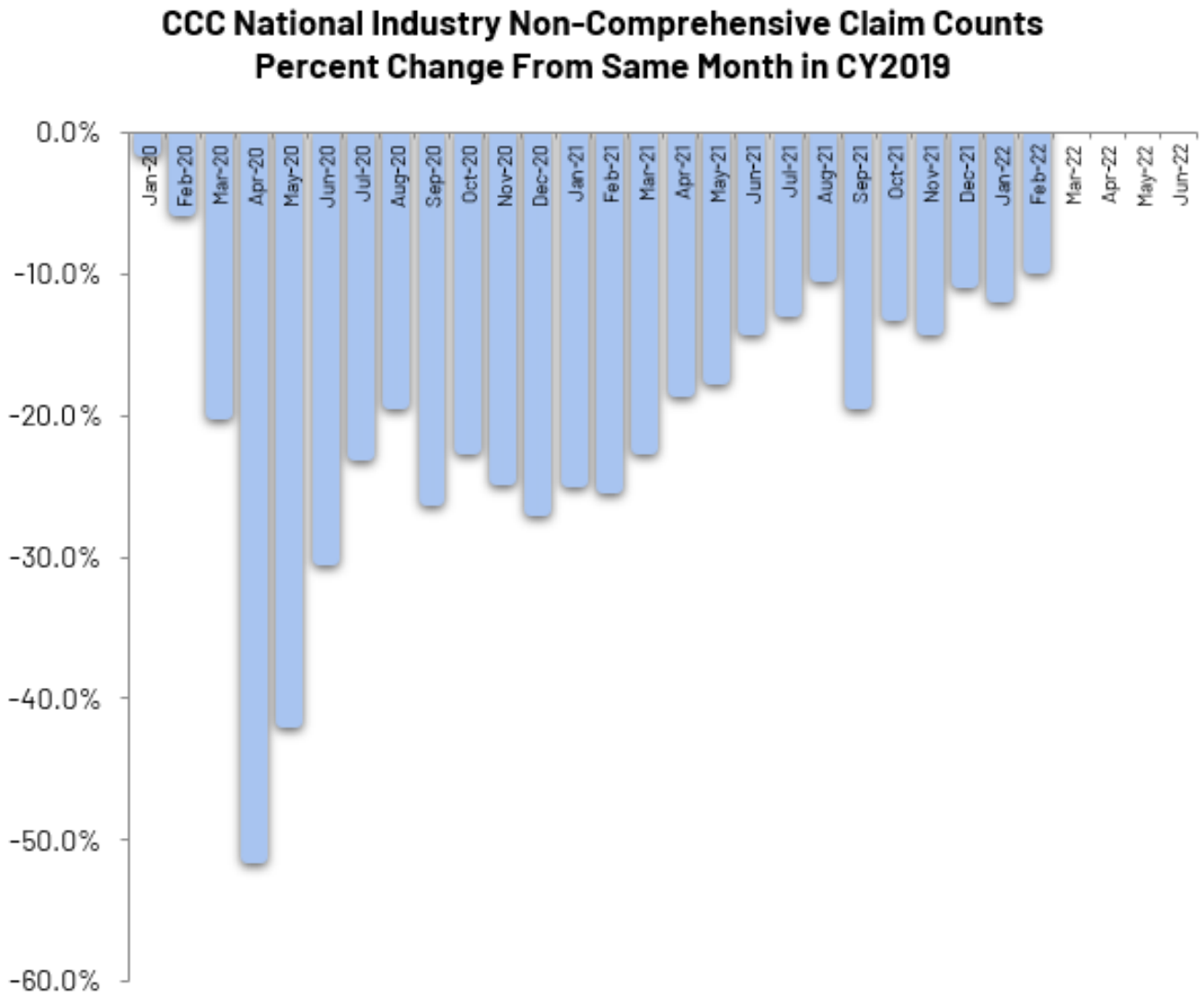
Our platform helps customers create efficiencies, address customer needs, and improve performance across >$100 billion of transactions annually

1. Includes self-insurers and other entities processing insurance claims
2. Includes other entities that estimate damaged vehicles
3. As of September 2021

Overall Claim Counts Increasing As Miles Driven Have Returned to 2019 Levels

As miles driven have reached pre-pandemic levels, claim counts have been recovering as well, but where, when, and how people are driving is different

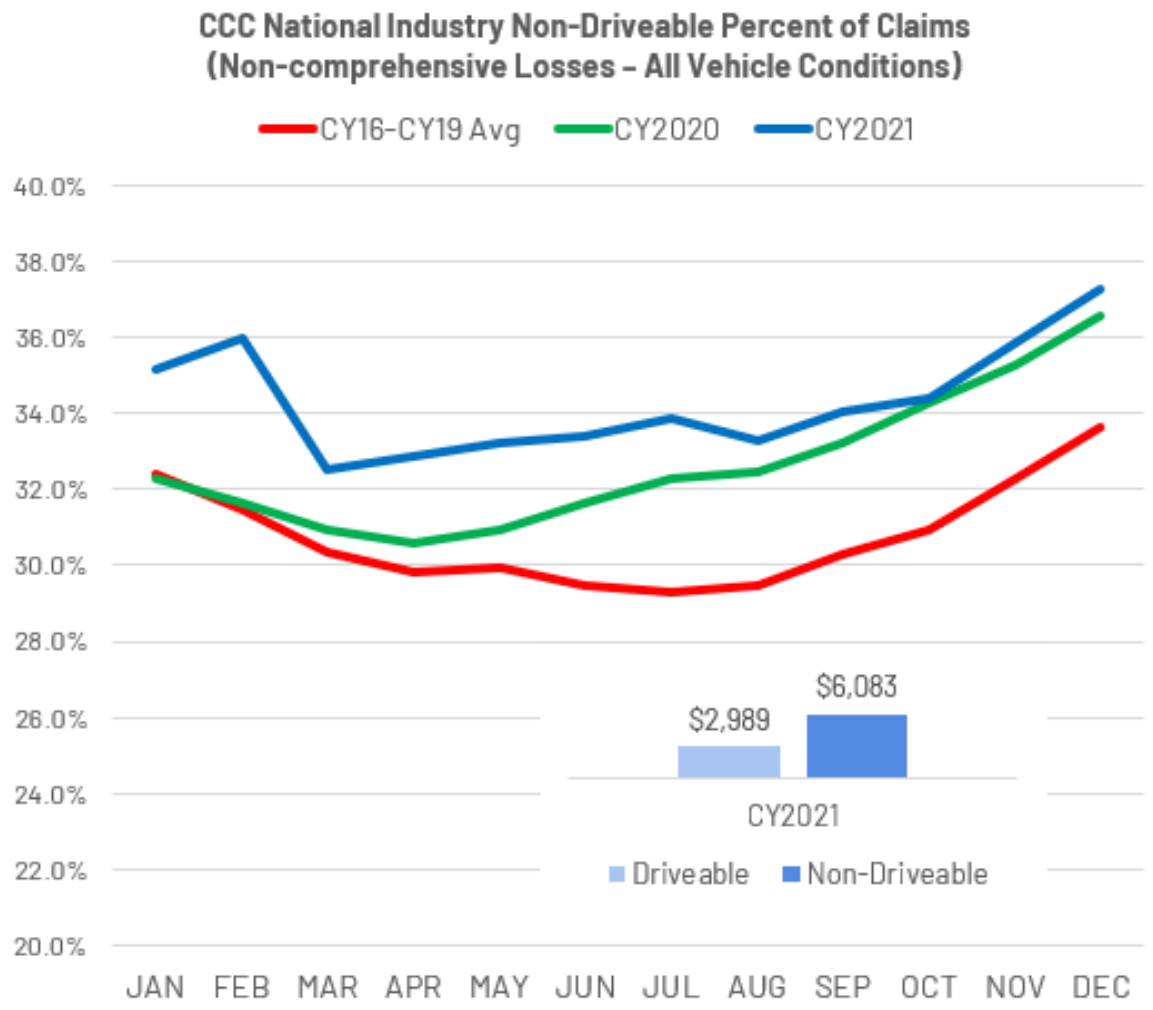


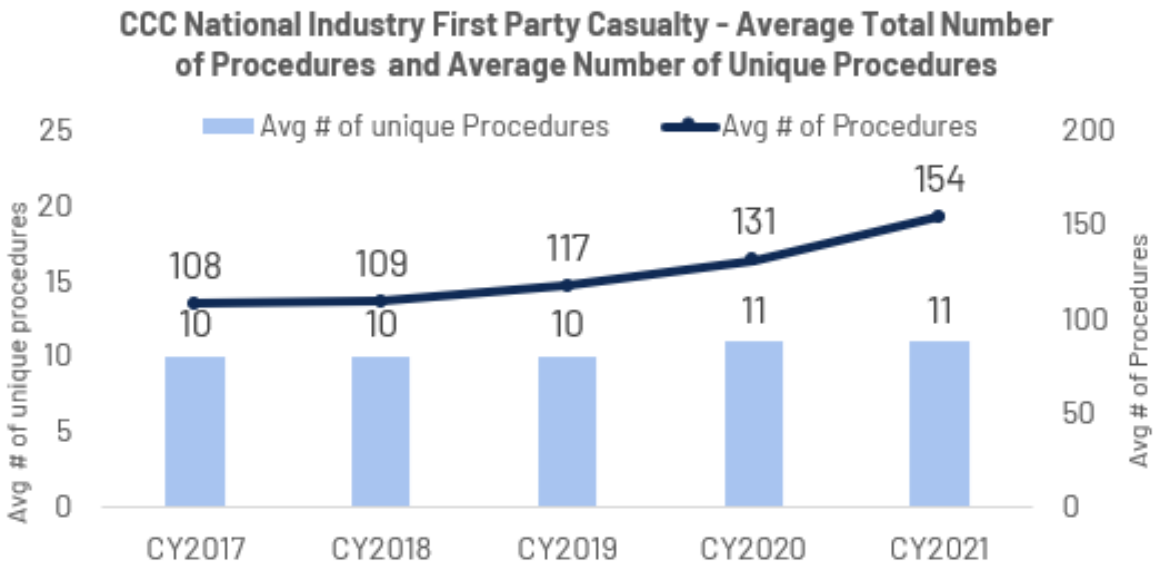


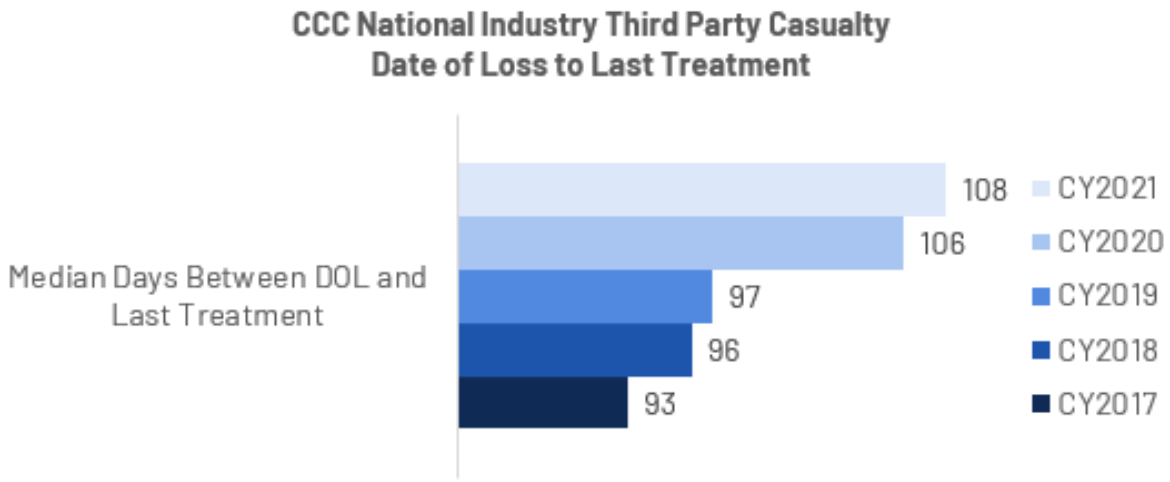
Source U.S. DOT OHPI Traffic Volume Trends, CCC Intelligent Solutions Inc.

Claims Data Continues to Suggest More Higher Speed Crashes Still Occurring

More severe accidents has meant more severe injuries with more costly treatments such as radiology and surgery, and increases in medical procedures and overall treatment time



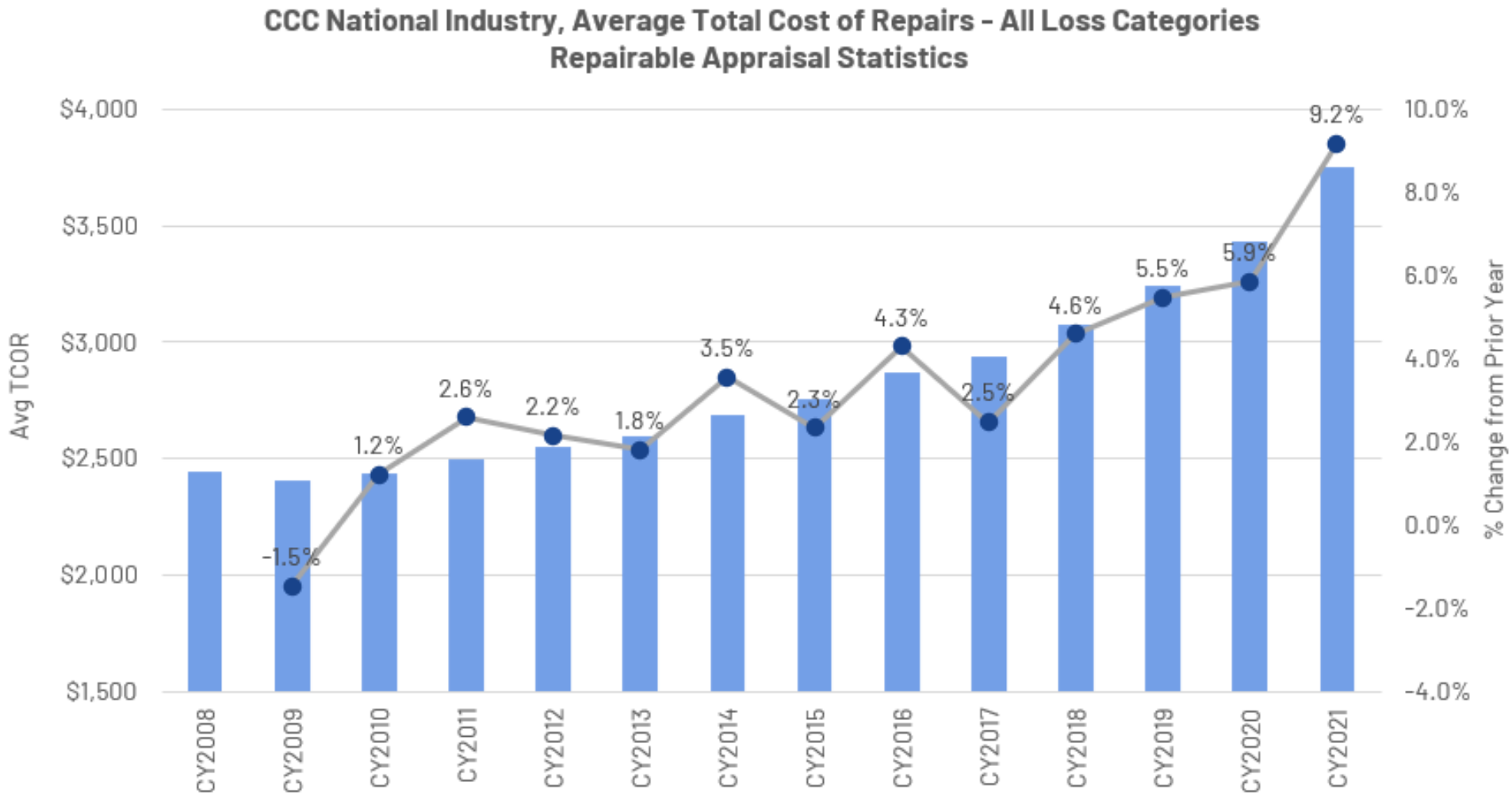




Source CCC Intelligent Solutions Inc.

Average Repair Costs Have Climbed Sharply in the Last Two Years

Even before the supply chain disruptions of 2021, vehicle repair costs had been increasing at much faster rates



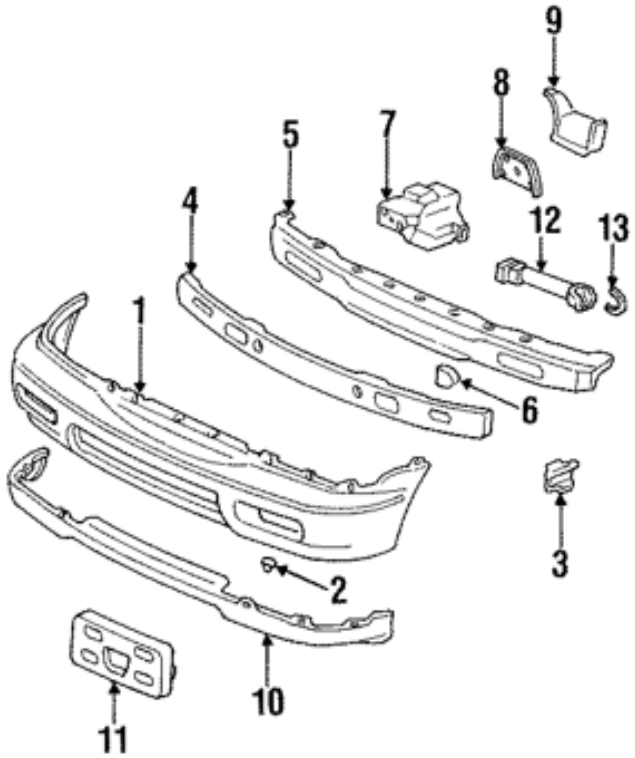
Average vehicle repair costs have risen steadily, with largest increases in the last 2 years

Source CCC Intelligent Solutions Inc. Updated 3/21/2022

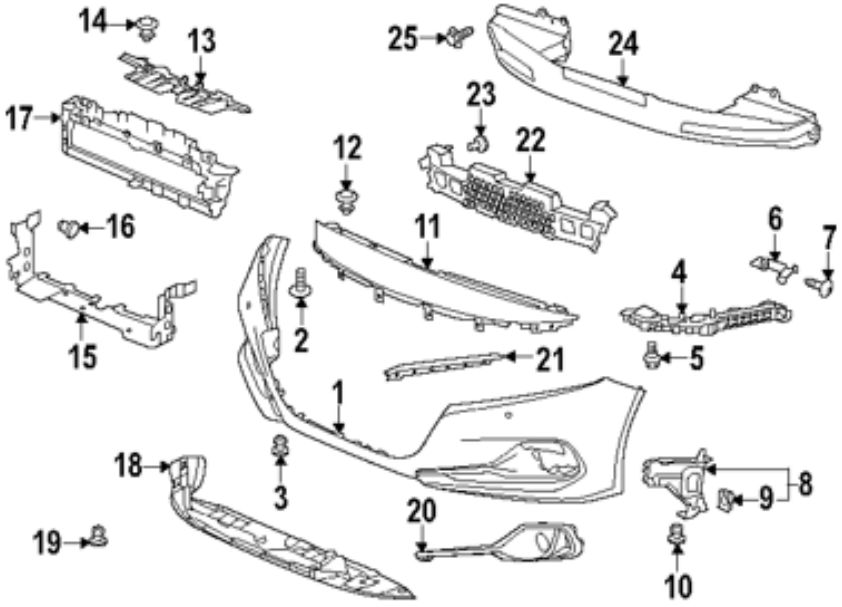
Vehicle Complexity Has Grown – More Parts and Electronic Content

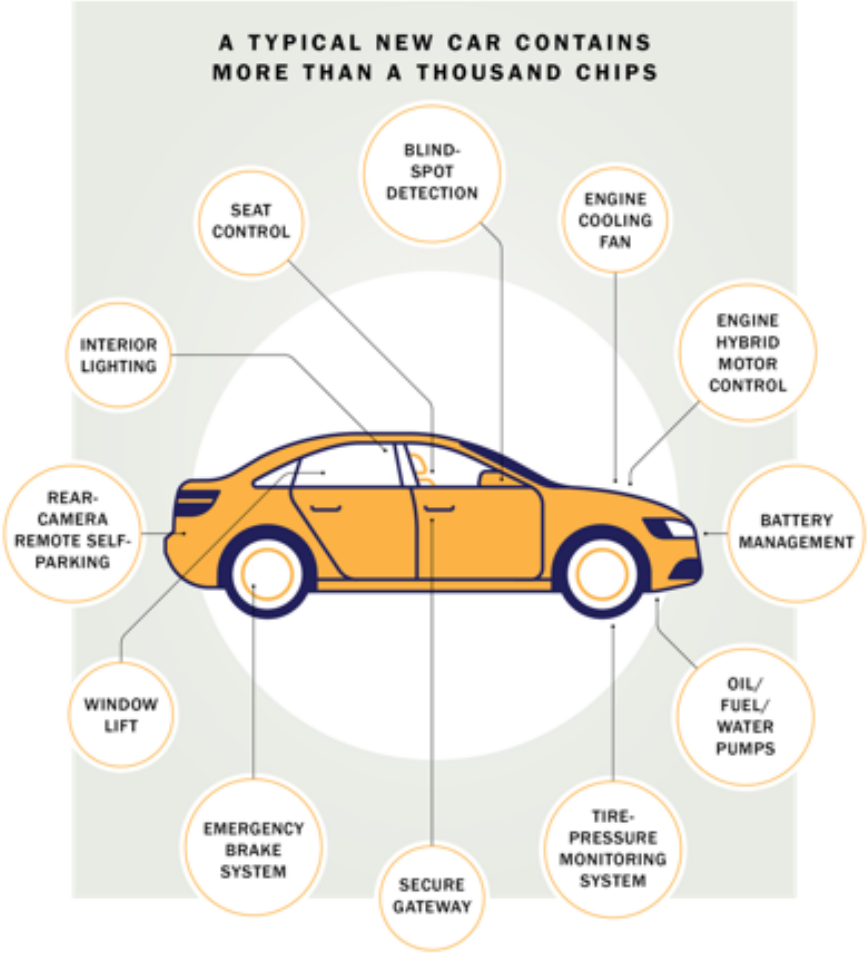
New vehicle features like collision avoidance technology has increased the overall number of parts on a vehicle, many of which are now electronic, located on the periphery of the vehicle and highly exposed even in minor accident

1996 Honda Accord LX



2021 Honda Accord LX

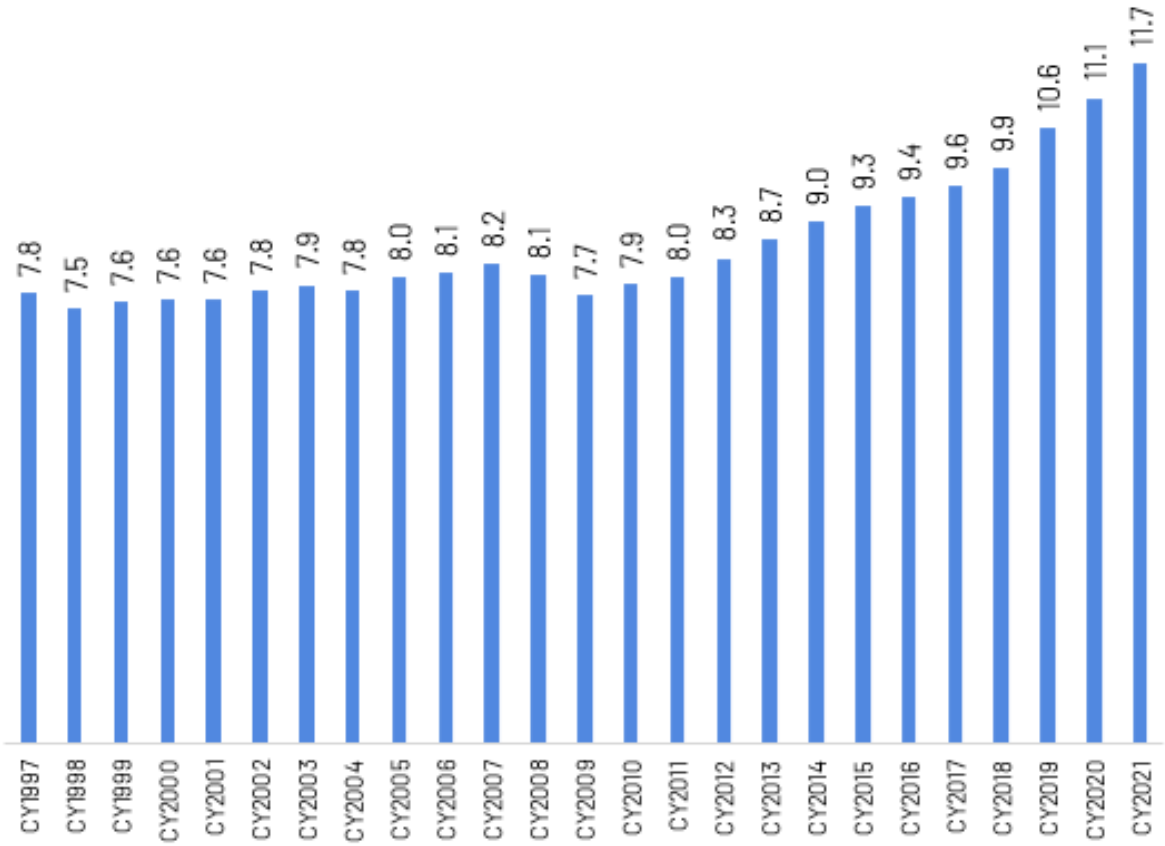




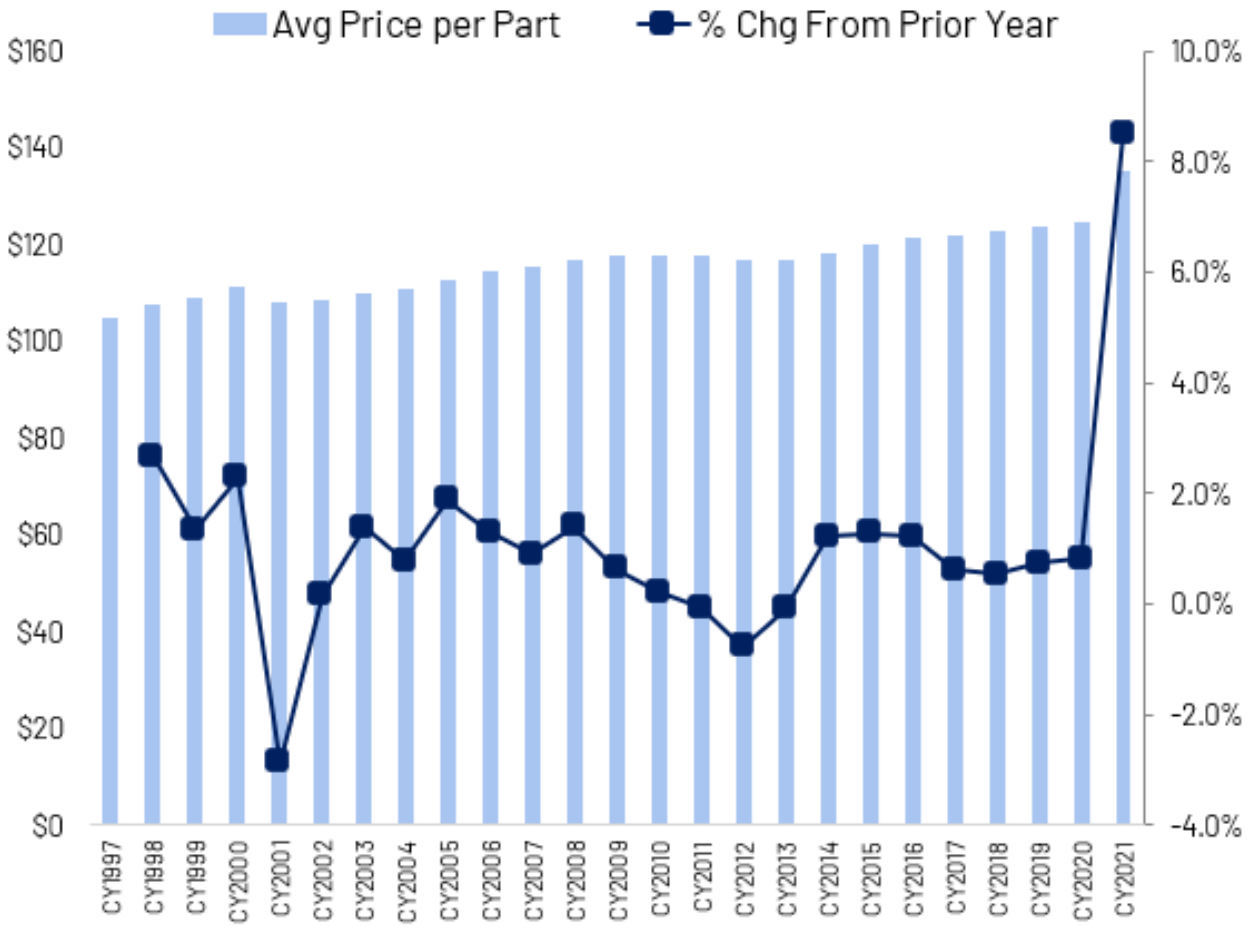
Source CCC Intelligent Solutions Inc.

Part Replacements Grow With Increased Vehicle Complexity while Part Costs Have Soared with Supply Chain Disruption

CCC National Industry Repairable Appraisals - Average Number of Part Replacements per Claim
(includes all parts incl attachments across all part types)



CCC National Industry Repairable Appraisals - Average Cost per Part
(includes all parts incl attachments across all part types)



Source CCC Intelligent Solutions Inc.

Recalibration of Systems Adds Labor and Complexity to Repair

New operations such as vehicle scans, test drives, and calibrations now required to return vehicle to pre-accident condition; require new skill sets, tools and training for collision repair industry

C1001:78 – Vision System Camera: Alignment or Adjustment Incorrect

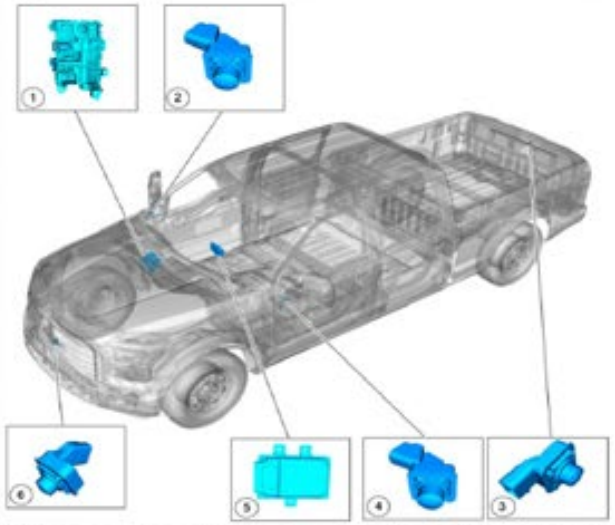
This continuous memory DTC sets when a new IPMA has been installed without performing camera alignment. PERFORM the camera alignment using a diagnostic scan tool.

MOTOR

Vehicle: 2015 FORD F-150-XL 2.7L V6 (P) GAS FI T

Content: Body & Accessories >> Rear View Monitor >> Parking Aid Camera, Front >> Part 1

w/Parking Aid Camera

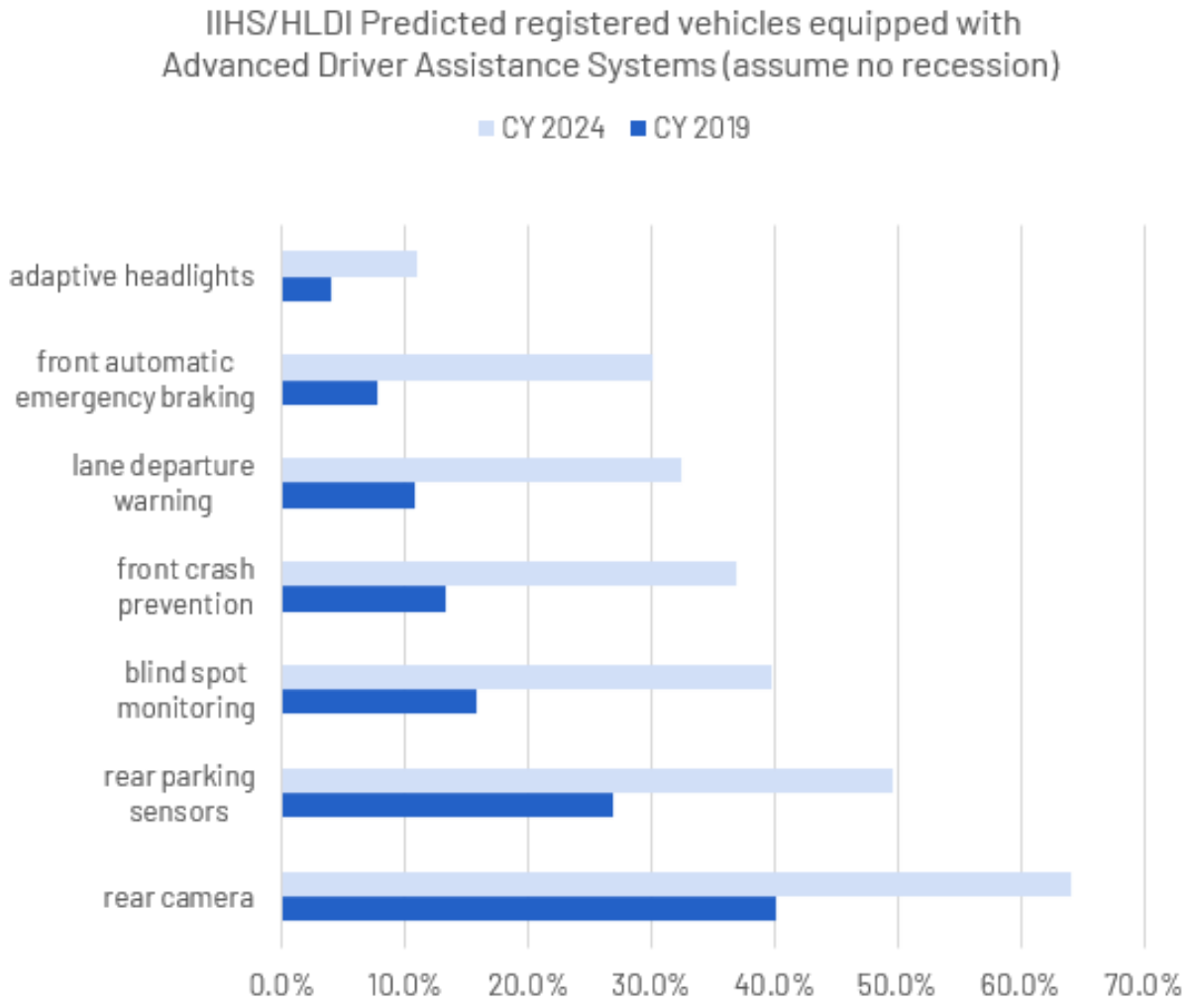


1. BCM (rear only parking aid camera system without PTBA)
2. RH side parking aid camera (360 degree view camera system)
3. Rear parking aid camera
4. LH side parking aid camera (360 degree view camera system)
5. IPMB (rear only parking aid camera system with PTBA or 360 degree view camera system)
6. Front parking aid camera (360 degree view camera system)

Source CCC Intelligent Solutions Inc.

ADAS Features Further Drive Complexity of Vehicles and Repairs

The age of vehicles for which an insurance claim is made skews younger than VIO; the percent of vehicles minimally equipped with front automatic emergency braking has grown from 25% of MY 2017 vehicles to over 80% by MY 2021



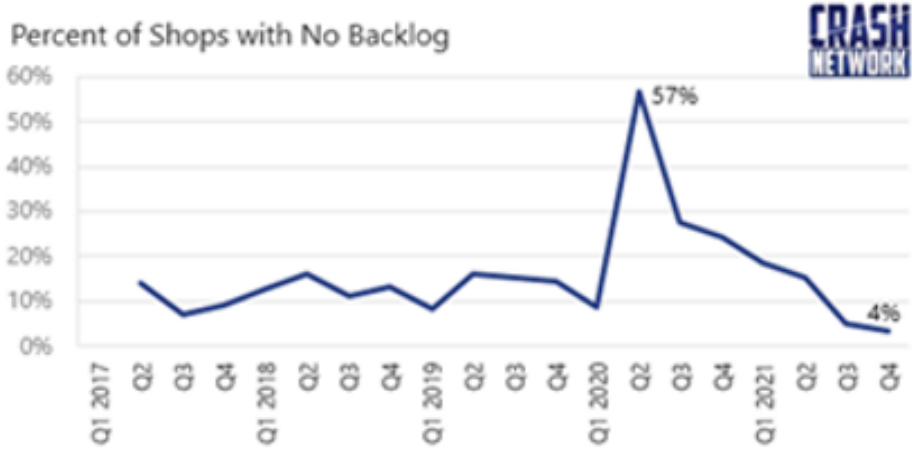
Key Observations

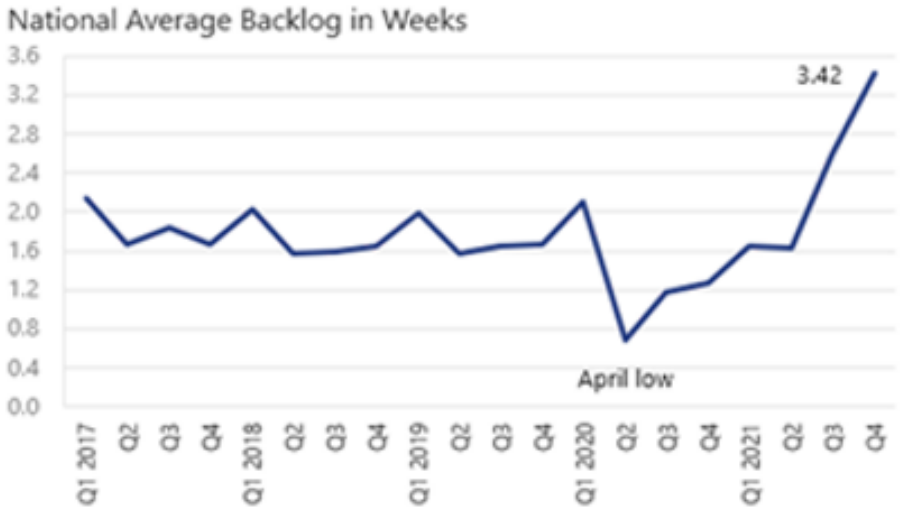
- The existence of ADAS will prevent some accidents, particularly low speed ones.
- Accidents with ADAS equipped vehicles in aggregate tend to be less severe.
- But the same accident with the same damage will result in higher repair costs for the ADAS equipped vehicle.
- Some ADAS features have potential to increase driver distraction and risk
- Less severe accidents in ADAS vehicles result in less severe injuries and thus better casualty outcomes.

Source IIHS/HLDI

Capacity within Collision Repair Industry Significantly Constrained

Repairers experiencing record backlogs from shortage of qualified technicians and supply disruptions



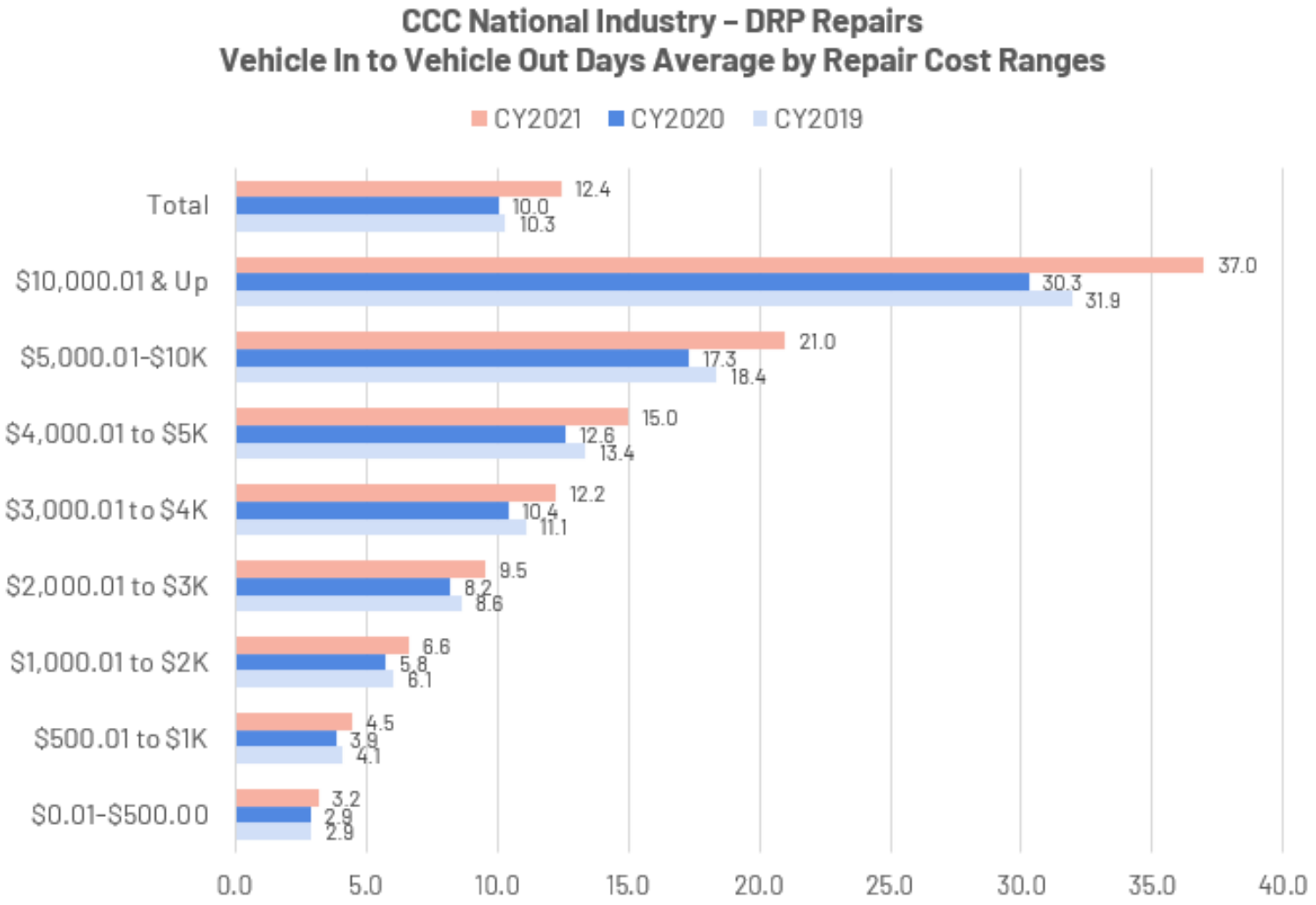


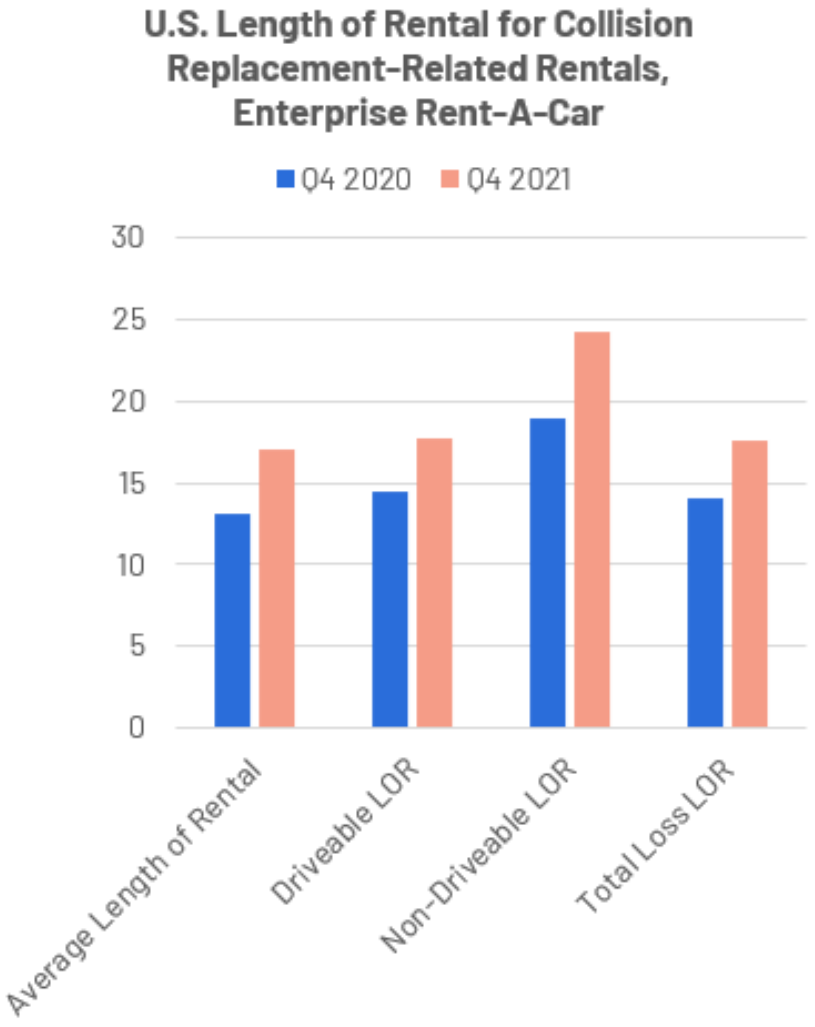
Key Observations

- National average scheduling backlog reached 3.4 weeks in Q4, twice the length of the typical fourth quarter backlog
- Pre-pandemic Q4 average backlog was only 1.7 weeks
- 67% of shops now scheduling new work two weeks or more into the future
- Key issues reported by shops:
  - Parts availability
  - Technician shortage
- Repairer productivity has also fallen to 5-year lows

Source CRASH Network, CCC Intelligent Solutions Inc.

Repair Times Per Repair Range Have Increased, And More Repairs in Higher Dollar Ranges Drives Up Overall Vehicle In to Vehicle Out Days Average

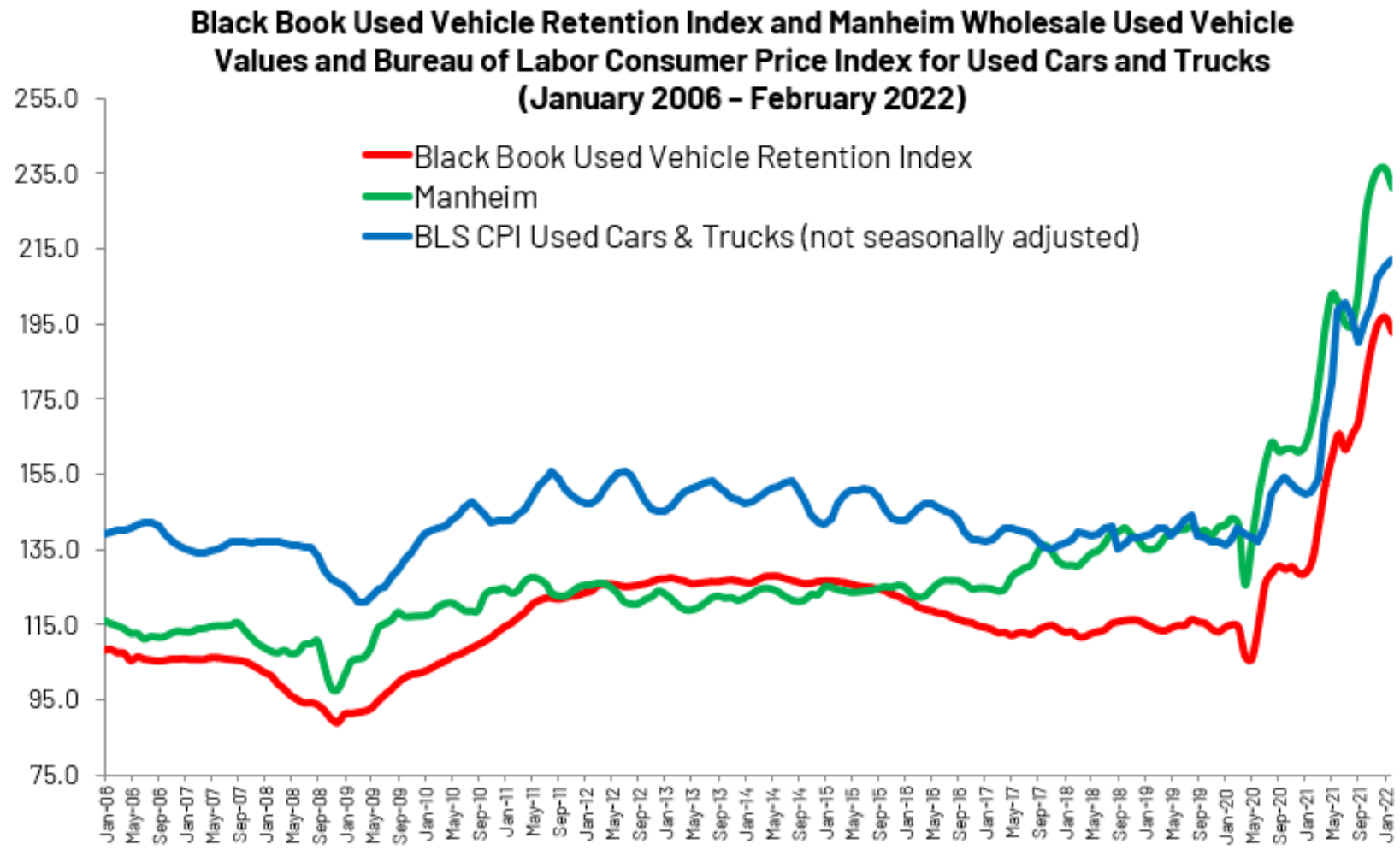




Source CCC Intelligent Solutions Inc., Enterprise Rent-A-Car

Used Vehicle Value Indices Suggest Prices to Remain Elevated

New vehicle production hampered by semiconductor chip shortage and war in Ukraine; analysts project shortages will remain till 2023 and even then, new vehicle production will ramp only slowly



Key Observations

- Sharp increases reflect surging demand while supply constrained for both used and new vehicles
- CY2020 retail new vehicle sales down -9% but fleet sales were down -38% (2.2M units)
- CY2021 fleet sales down another 4% (down 9% for rental units)
- Wholesale prices in Dec'21 up 46.6% from Dec'20 and Blackbook retention index set a new record in Dec'21 (up 52% from Dec'20)
- BLS CPI for used vehicles increased 26.6% in CY2021 versus CY2020
- 'Spring bounce' in used prices expected in 2022 with higher tax returns and pent-up demand

Sources: www.manheim.com/consulting/ and www.bls.gov and www.blackbook.com

Accident Frequency Recovering

- Claim counts continue to increase in early 2022
- New and used vehicle sales remain strong, hampered by inventory shortages which continue to keep prices elevated
- Sales of EV's and vehicles with Level 2 ADAS remain strong further driving complexity in the vehicle fleet
- Where, when and how people are driving remains altered from pre-pandemic

Market Pressures Increase

- Consumer preferences for more tech and light trucks has driven more costly complex vehicles into the VIO
- Repair times and costs continue to grow; especially for newer more complex vehicles (often the same vehicles that require a pre- and/or post-repair scan) and impacts repairer productivity
- Inflation and supply disruption have raised part prices
- Labor costs rising faster in early 2022 as repairers raise rates to keep and attract talent to combat shortage of qualified technicians

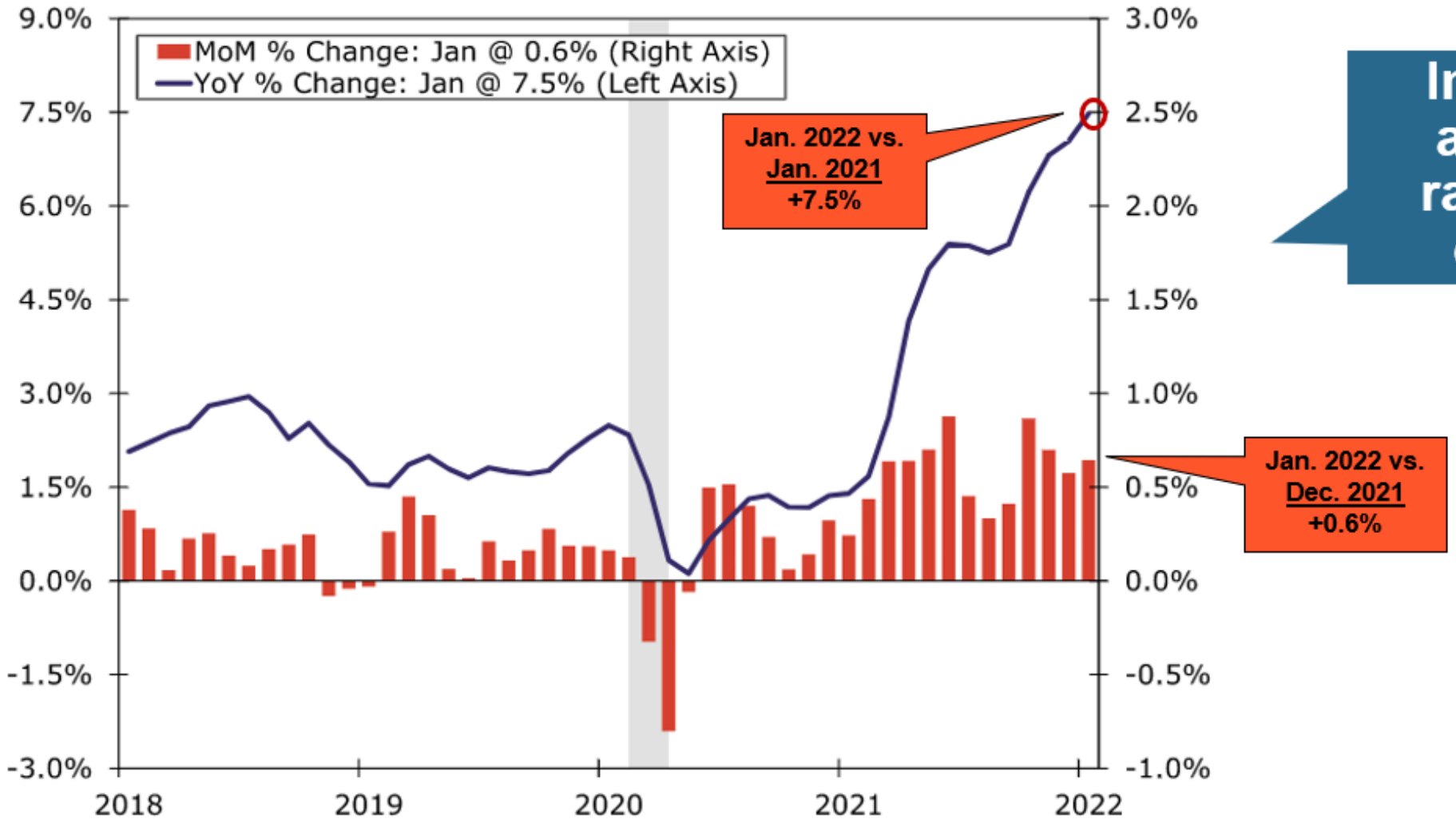
Inflation in the P/C Insurance Industry: *Assessing Threats, Challenges and Outcomes*

NAIC C Committee Meeting
April 7, 2022

Robert P. Hartwig, PhD, CPCU
Clinical Associate Professor of Finance, Risk Management & Insurance
Darla Moore School of Business ♦ University of South Carolina
Robert.Hartwig@moore.sc.edu ♦ 803.777.6782

UNIVERSITY OF SOUTH CAROLINA
Darla Moore School of Business

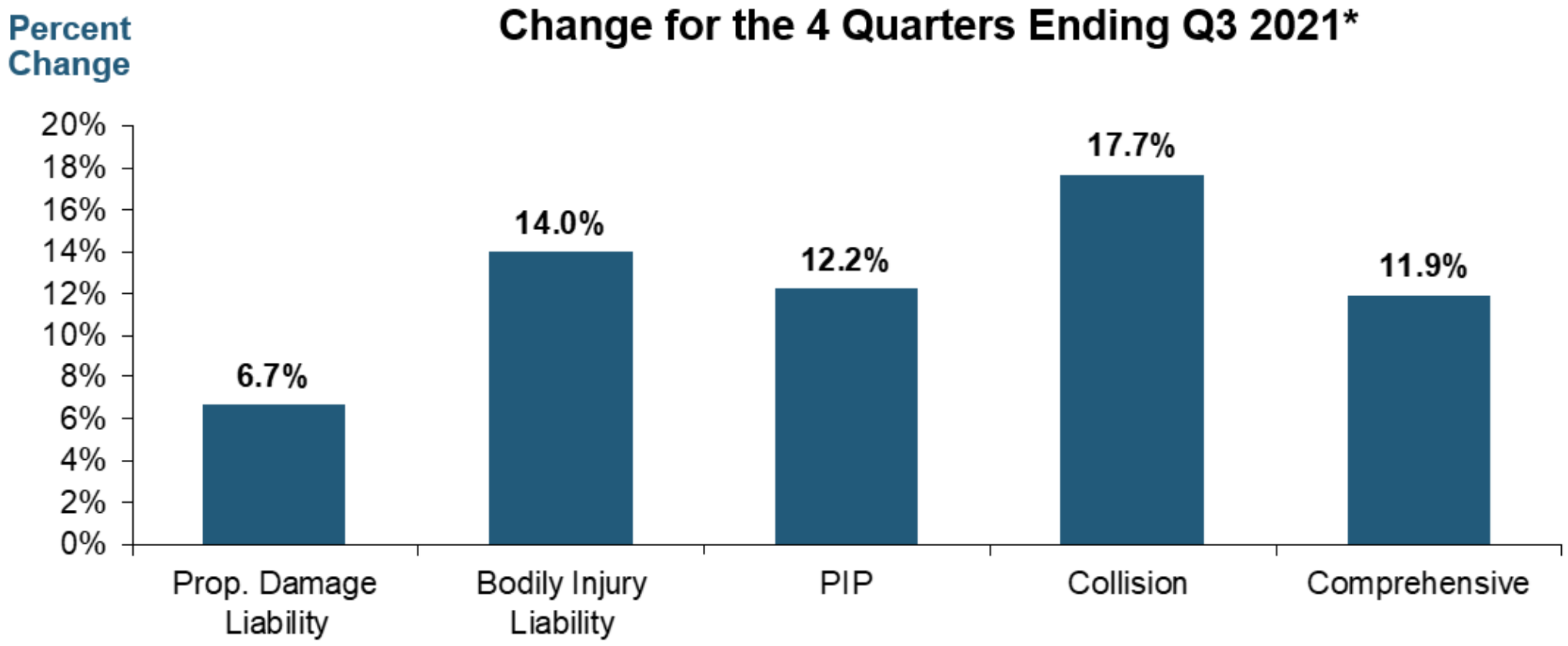
Consumer Price Index (CPI-U): M-o-M and Y-o-Y Changes, Jan. 2018 – Jan. 2022



Inflation has accelerated rapidly since early 2021

Source: U.S. Bureau of Labor Statistics; Wells Fargo Securities (2/22); USC Center for Risk and Uncertainty Management.

US Personal Auto Claim Auto Claims Severities Are Up Sharply

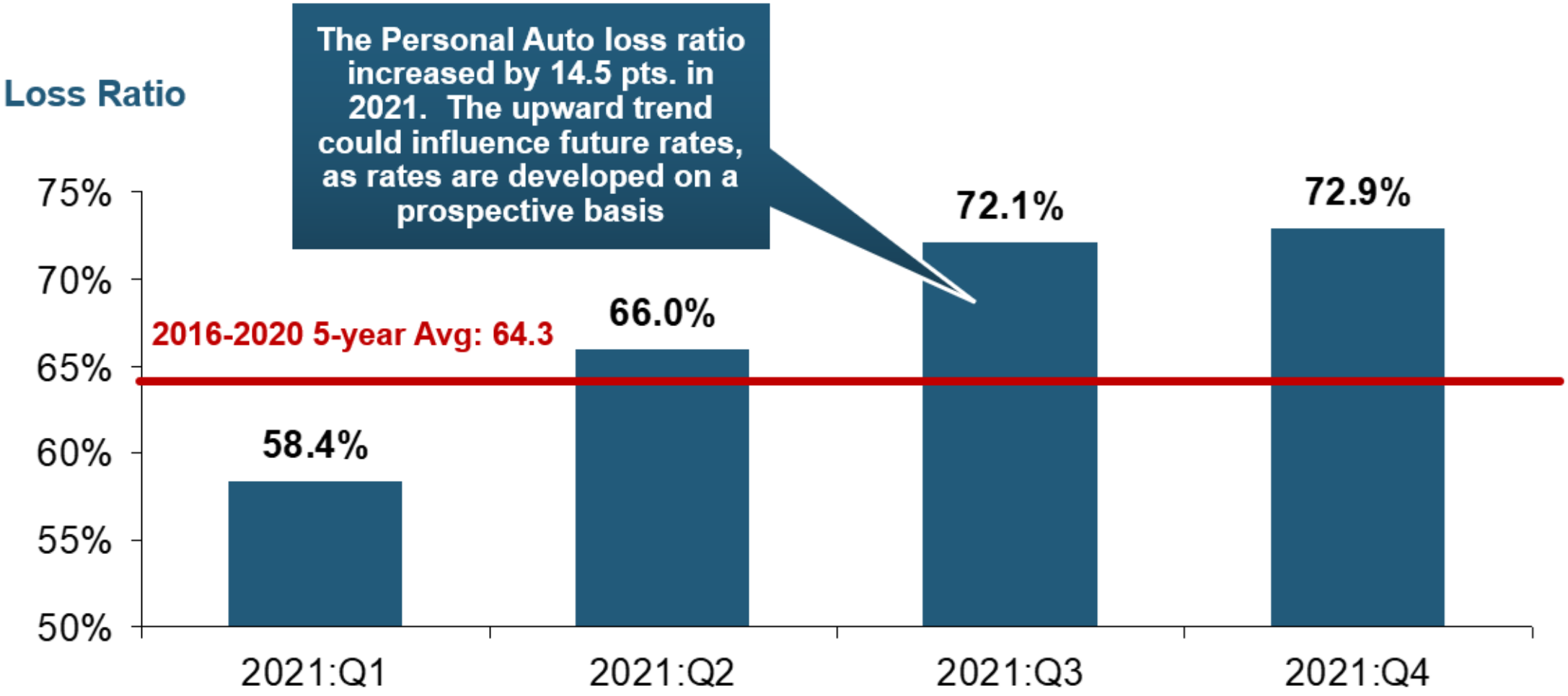


Inflation Is Contributing the Sharp Increase in Auto Claim Severities—For both Physical Damage and Bodily Injury Coverages

*Most recent available.

Source: ISO/PCI *Fast Track* data for Q3 2021; Risk and Uncertainty Management Center, Univ. of South Carolina.

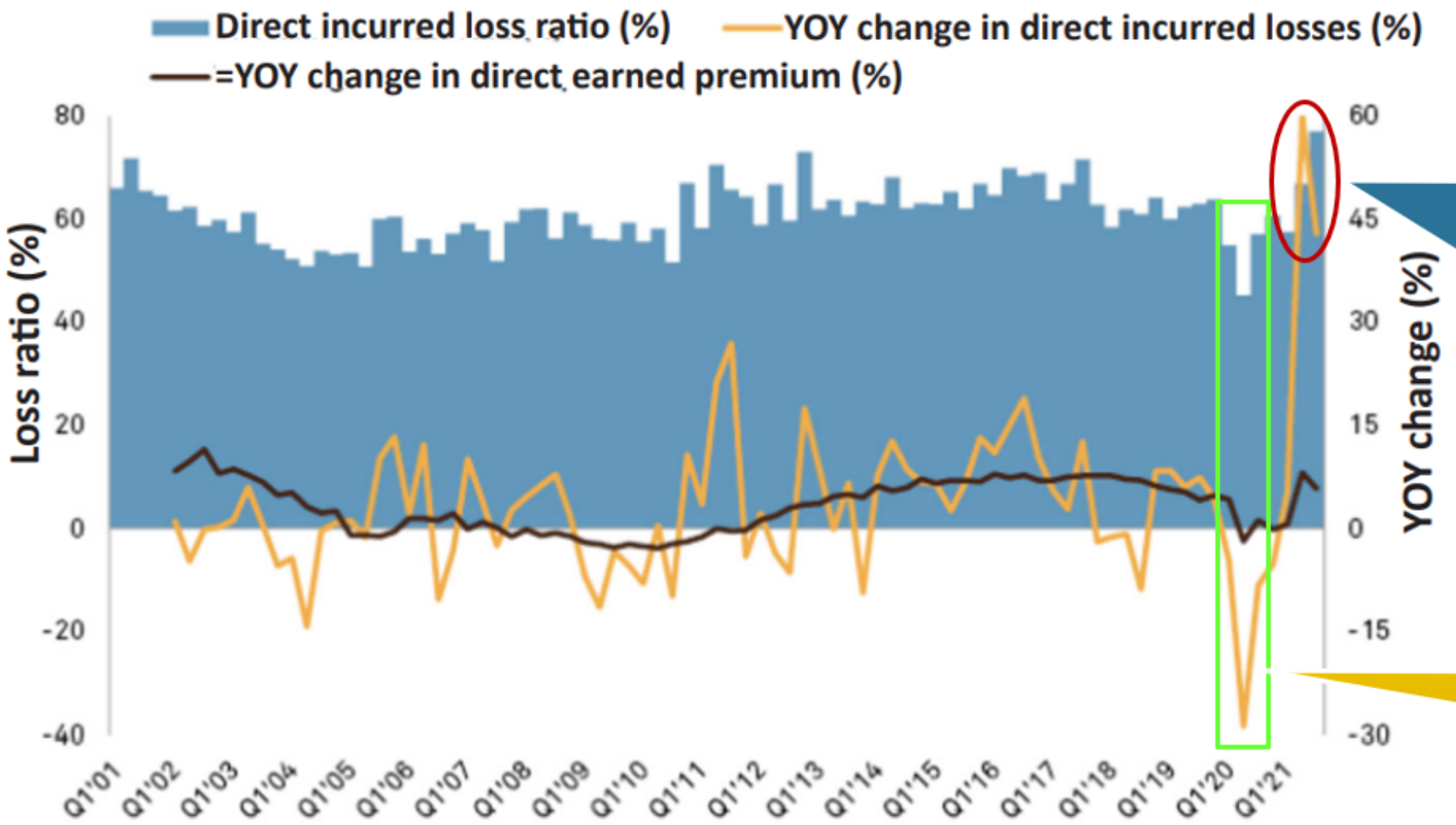
Personal Auto Loss Ratios: 2021 Quarterly



Collision Loss Ratios Are Rising Rapidly and Are Far Above the 5-Year Average

Source: APCIA via S&P Global Market Intelligence; University of South Carolina, Risk & Uncertainty Management Center.

Inflationary Spike in Auto Physical Damage Losses

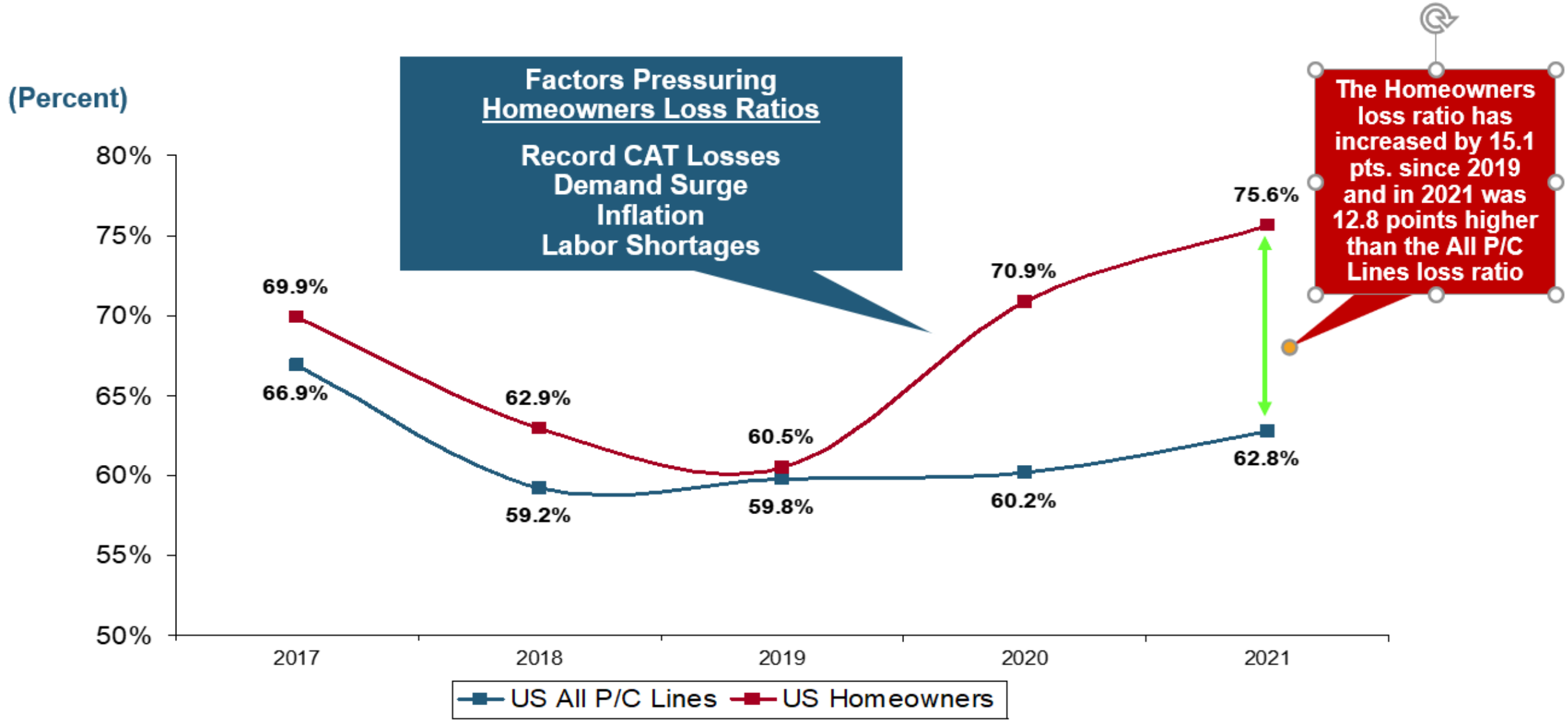


Incurred loss and loss ratios are up sharply, but premiums haven't come close to keeping pace. Private Passenger Auto rates lag behind underlying loss cost trends.

Temporary COVID-driven drop in losses, loss ratio and dip in premiums

Source: APCIA: *Insurers Struggling to Keep Pace with the Highest Inflation in 40 Years* (Feb. 2022).

Direct Loss Ratios: Homeowners vs. All P/C Lines, 2017–2021



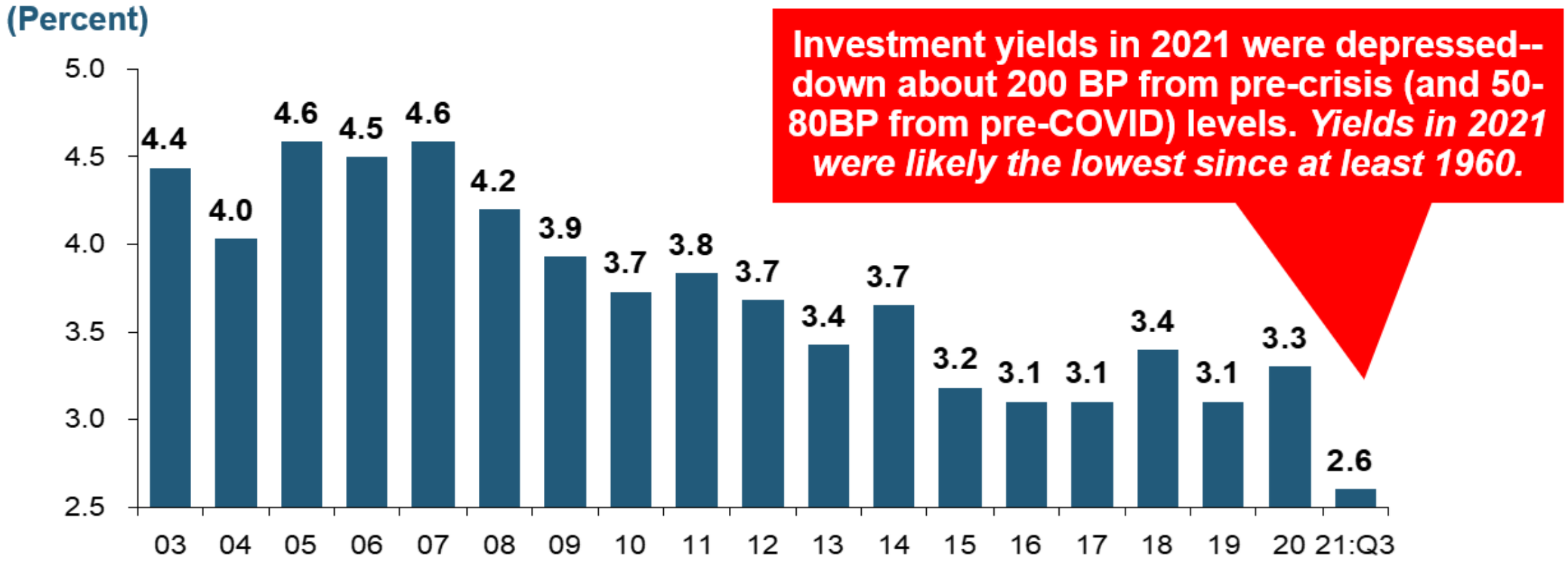
Sources: APCIA: *Insurers Struggling to Keep Pace with the Highest Inflation in 40 Years* (Feb. 2022) sourced from: *Insurance Journal*, based on data from A.M. Best, January 25, 2022 Report "US Property/Casualty Top Line Premiums Up, Loss Ratio Deteriorates Through 3Q 2021."

Producer Price Index: Lumber and Wood Products, Jan. 2020 – Jan. 2022

Lumber & Wood Product prices surged during the pandemic, peaking in mid-2021 and remain 62% above pre-COVID levels

Sources: US Bureau of Labor Statistics; Risk and Uncertainty Management Center, University of South Carolina.

Net Investment Yield on Property/Casualty Insurance Invested Assets, 2007–2021:Q3

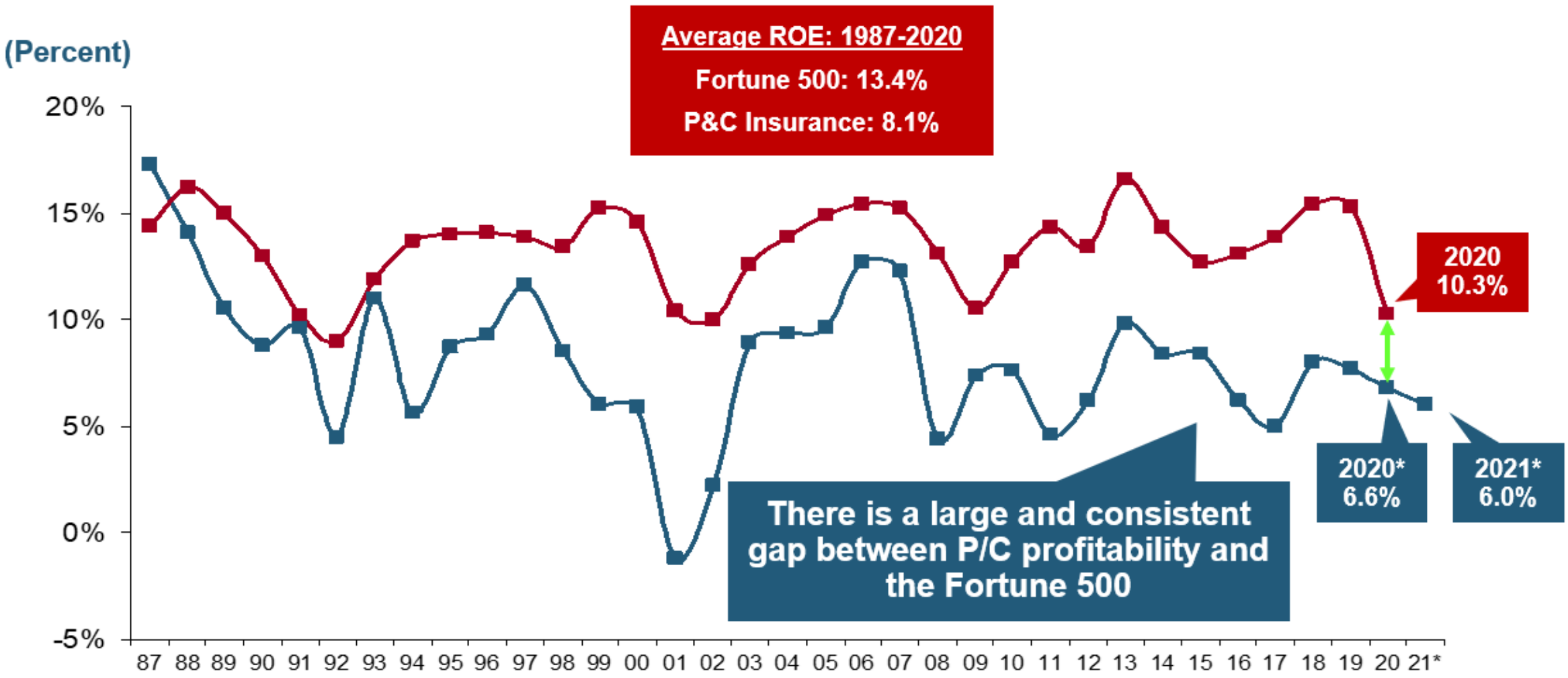


Investment yields in 2021 were depressed--down about 200 BP from pre-crisis (and 50-80BP from pre-COVID) levels. *Yields in 2021 were likely the lowest since at least 1960.*

Average: 1960-2019 = 4.9%
Low: 2.8% (1961)
High: 8.2% (1984/85)

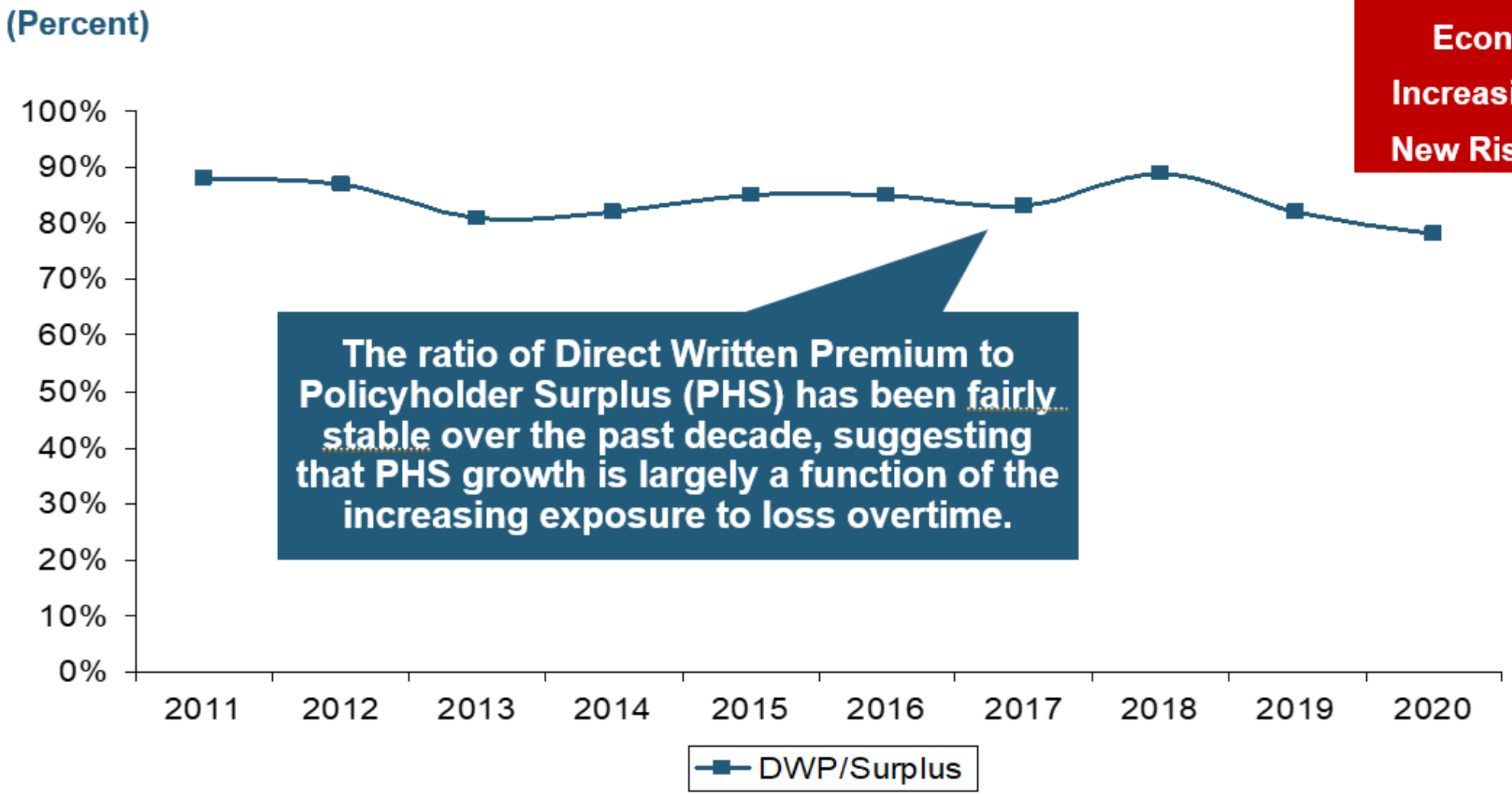
Sources: NAIC data, sourced from S&P Global Market Intelligence; 2017-19 figures are from ISO. 2020-21 data from the APCIA. Risk and Uncertainty Management Center, Univ. of South Carolina.

ROE: Property/Casualty Insurance vs Fortune All Industry, 1987–2021E*



*Excludes Mortgage & Financial Guarantee in 2008 – 2014. 2021 P/C figure is estimate based on actual of 6.0% through Q3.
Sources: ISO, *Fortune,* APCIA; USC RUM Center.

Premium and Loss Reserves to Policyholder Surplus, 2011–2020



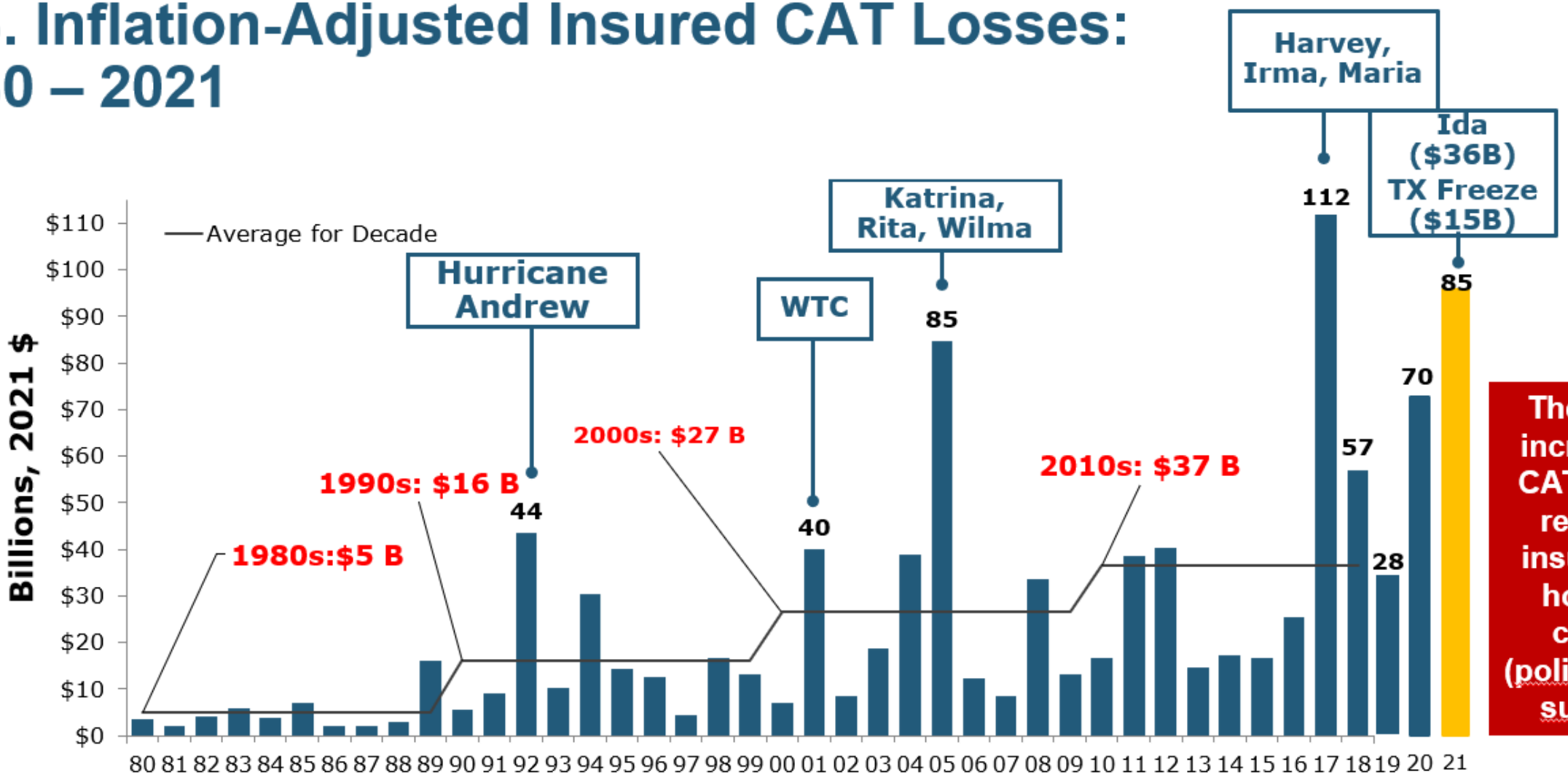
Drivers of Increasing Loss Exposure Include:

- Economic Growth
- Increasing CAT Losses
- New Risks (e.g., Cyber)

The ratio of Direct Written Premium to Policyholder Surplus (PHS) has been fairly stable over the past decade, suggesting that PHS growth is largely a function of the increasing exposure to loss overtime.

Sources: S&P Market Intelligence; Risk & Uncertainty Management Center, University of South Carolina.

U.S. Inflation-Adjusted Insured CAT Losses: 1980 – 2021



The sharp increase in CAT losses requires insurers to hold my capital (policyholder surplus)

Average Insured Loss per Year*
1980-2021: $23.8 Billion
2012-2021: $44.1 Billion

The 2020s are off to an ominous start with $76B in average annual insured losses

*Stated in 2021 dollars.
Sources: Property Claims Service, a Verisk Analytics business (1980-2019); 2020 and 2021 figures from Munich Re; Insurance Information Institute; University of South Carolina, Risk & Uncertainty Management Center.

SUMMARY

- P&C insurance industry is experiencing a sharp increase in claim severities affecting property, liability and auto coverages
- Loss ratios are increasing rapidly
- Inflation, record/near-record catastrophe losses, demand surge and the increased dangerous driving behaviors are all contributing to the increase in severities and loss ratios
- Investment income has been falling in recent years
- Given current trends, rate adequacy is a concern
- Insurers use current trend data to develop rates prospectively, hence the pressure adjust rates accordingly

UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

Thank you for your time and your attention!

Twitter: twitter.com/bob_hartwig

For a copy of this presentation, email me at robert.hartwig@moore.sc.edu or

Download at www.uscriskcenter.com

UCONN
SCHOOL OF LAW

Liability Insurance and Gun Ownership

City of San Jose's Ordinance

C Committee Presentation: April 7, 2022
NAIC Spring National Meeting

Peter Kochenburger
Deputy Director, Insurance Law Center
peter.kochenburger@uconn.edu

UCONN SCHOOL OF LAW

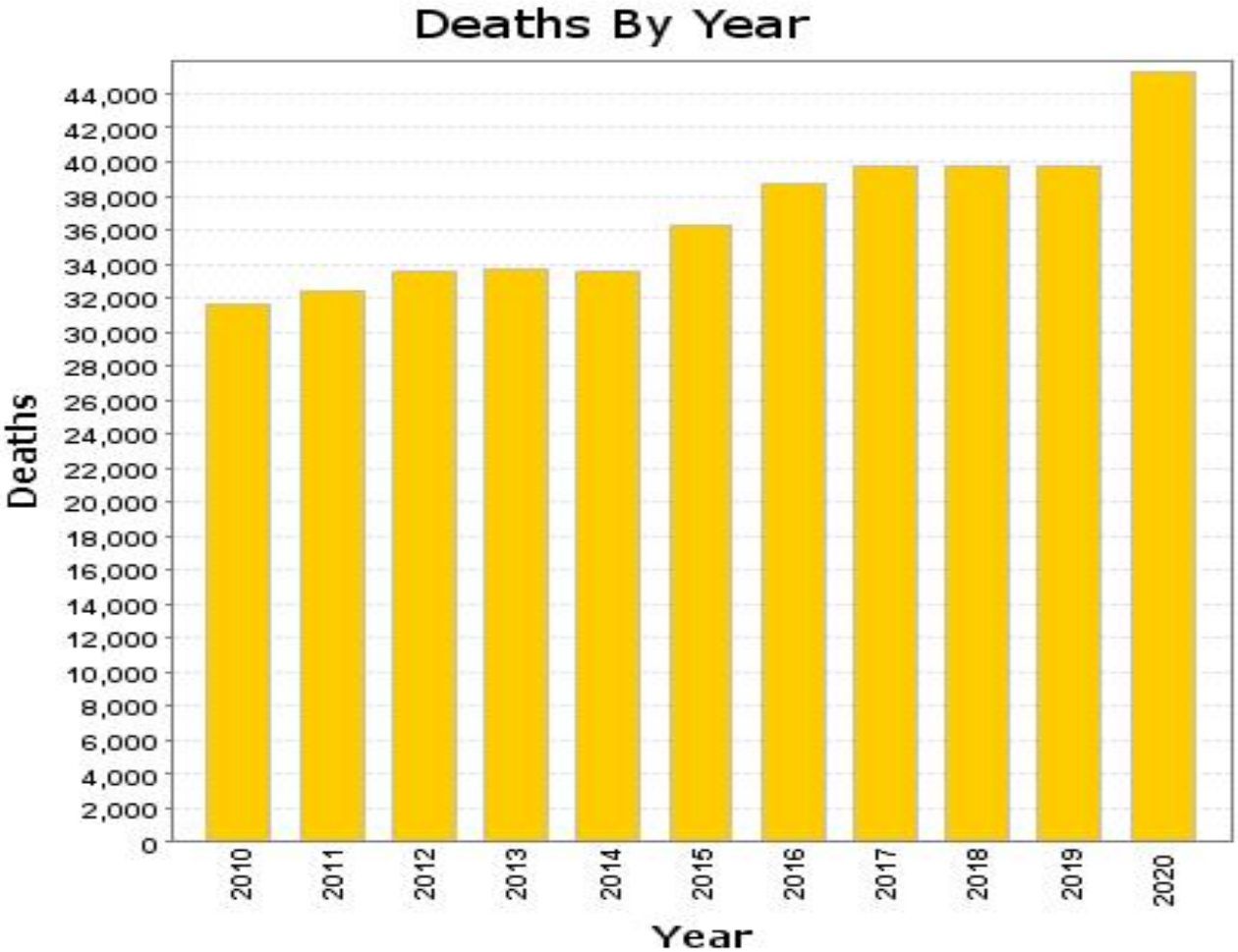
Utilizing Insurance to address major social and environmental Issues

Related to ESG - environmental, social and governance

- Climate Change
  - Insurers as Investors - fossil fuel investments
  - Insurers as Underwriters
- Social and Human Rights, including access to:
  - Healthcare
  - Food and shelter – crop insurance, property insurance
  - Financial security – micro-insurance, financial products
- Cyber Security - Cyber Insurance
- And, reducing gun violence?

UCONN
SCHOOL OF LAW

Firearm Deaths: 2010-2020*
[2020: 45,222]



*CDC Data

UCONN SCHOOL OF LAW

The City of San Jose Ordinance

- Enacted on January 25, 2022, with amendments on February 3, 2022, after months of deliberation. Becomes effective after 180 days, unless …
- Legal challenges:
  - National Association for Gun Rights filed suit in federal court the same day, on 2nd Amendment and related grounds
  - Several CA taxpayer organizations sued in mid-March; their focus is on the $25 annual fee.
- Ordinance drafted with knowledge that 2nd Am. challenges would be filed immediately. Law firms provided assistance in analyzing and drafting the law.

UCONN
SCHOOL OF LAW

The City of San Jose Ordinance Two major provisions

1. "Insurance required. A person who resides in the City and owns or possesses a Firearm in the City shall obtain and continuously maintain in full force and effect a homeowner's, renter's or gun liability insurance policy from an admitted insurer or insurer as defined by the California Insurance Code, specifically covering losses or damages resulting from any ~~negligent or~~ accidental use of the Firearm ,including but not limited to death, injury or property damage." Section 10.32.210 (highlighting added)
2. Annual Gun Harm Reduction Fee [set at $25] payable to "Designated Nonprofit Organization." Fees must be used for direct services to San Jose residents who own a firearm or reside in a home where a firearm is present. § 10.32.215

UCONN
SCHOOL OF LAW

The City of San Jose Ordinance Liability Insurance Provision

- The Ordinance does not establish minimum limits, though City Manager authorized to promulgate regulations implementing the Ordinance.
- Firearm owners must keep a signed "Attestation Form" with their firearm (s) that provides the insurer's name and policy number. There is no requirement that owners must file this form with the City, though must show it to a peace officer's lawful request.
- Exceptions – peace officers, individuals licensed in CA to carry a concealed weapon, or "financial hardship."

UCONN SCHOOL OF LAW

Insurance coverage and firearm-related deaths and injuries

- Standard Homeowners/renters policies do not specifically – by name – insure, and rarely specifically exclude, deaths and injuries caused by firearms.
- Rather, coverage is provided if there is bodily injury or property damage caused by an occurrence during the policy year/territory and not otherwise excluded.
- The market for firearm specific liability insurance is small, often associated with various firearm member associations, usually underwritten by surplus lines insurers, and largely targeted at insuring liability risks arising from shootings (allegedly) in self-defense.
- These self-defense policies are interesting and sometimes controversial. Please contact me if you would like to discuss.

UCONN
SCHOOL OF LAW

Liability Insurance

Three Primary goals:

- Protect Policyholder financial assets and security
- Victim Compensation
- Risk Mitigation and Loss Control

The last category is this legislation's primary objective

UCONN
SCHOOL OF LAW

How could liability insurance reduce gun violence?

Insurers as Private Regulators

- Leverage Insurers' ability to collect and analyze data and create risk classifications
- Utilize risk-based pricing to encourage best practices in firearm purchases, training, storage, and use
- Support research on firearm safety (e.g., Insurance Institute for Highway Safety)

UCONN
SCHOOL OF LAW

Ordinance Specifically Incorporates Insurers' Risk Reduction Capability

10.32.200 Purpose and Findings

- B10: Injuries from unintentional shootings, which are generally insurable, more than a third of all gun-related injuries nationally; and
- B11: Auto insurers have used risk-adjusted premiums to reward good driving and incentivize use of airbags and other safety features, and by using a comprehensive public health approach to car safety the United States reduced per-mile auto fatalities by nearly eighty percent (80%) from 1967 to 2017; and
- B12: Liability insurance can reduce the number of gun incidents by encouraging safer behavior and it can also provide coverage for losses and damages related to gun incidents; and ….

UCONN SCHOOL OF LAW

Will insurers apply their considerable expertise in risk management to firearms in a home?

The City's intent in requiring liability insurance incorporates traditional uses of insurance and envisions insurance underwriting and risk based pricing as key components in reducing firearm-related accidents and suicides.

For example, reducing suicides:

Suicide "Completion" Rates:

- By firearms: 70-90%
- All Other Means: 10-15%

- Prevent or delay access to firearms from unauthorized users (children & teenagers) – "best practices" in storing and safeguarding firearms
- Many attempted suicides are impulse decisions; even brief delays in accessing firearms can reduce incidents

UCONN SCHOOL OF LAW

Do liability insurers have sufficient loss exposure to underwrite as envisioned?

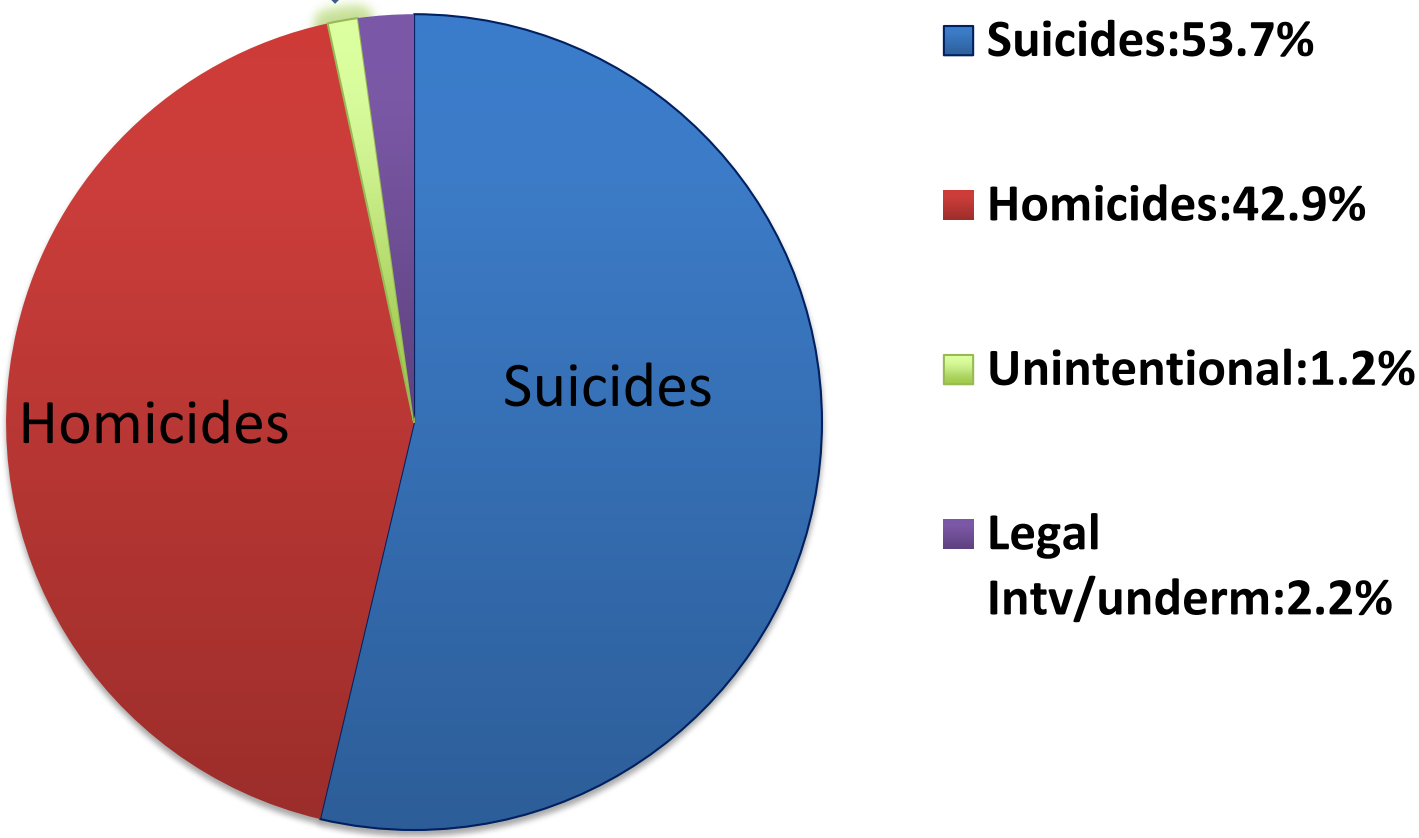
This Ordinance could in theory help reduce these incidents, but

Is there a sufficient linkage between the causes of firearm deaths and injuries and a liability insurer's coverage obligations under the policies? Would insurers underwrite firearm ownership similar to other liability risks, such as driving records, presence of a dog, or swimming pools?

UCONN
SCHOOL OF LAW

2020 Firearm Deaths: 45,222 (CDC)

Injury Intent



UCONN
SCHOOL OF LAW

Liability Insurance & Gun Violence
Homeowners & Renters Insurance

- Approximately 95% of gun deaths and injuries attributable to suicides and homicides
- Suicides typically do not lead to claims covered by liability insurance
- "Homicides" is a broad category, but liability claims against the shooter most likely excluded in Homeowners policies:
  - Expansive Intentional Act and criminal conduct exclusions
  - Insured v. Insured exclusions
- "Unintentional" shootings only category very likely covered, approximately 1.2% of deaths and 20% of injuries.

UCONN
SCHOOL OF LAW

Liability Insurance & Gun Violence
Homeowners & Renters Insurance

- Insurers likely can promote and privately "regulate" gun safety through research, risk-based pricing and education, and thereby reduce firearm injuries, but they may have minimal economic incentive to do so given the weak correlation between an insurer's risk mitigation function and its coverage obligations
- Life insurers may have measurable exposure, as suicides are typically a covered cause of death after several policy years. However, do life insurers currently underwrite to reduce these risks?

UCONN
SCHOOL OF LAW

Gun Control
One of America's Third Rails

- The underwriting evaluations that would promote firearm safety may also be those likely to place insurers into a highly contentious public debate, with low profit potential for this underwriting, and the risk of alienating some significant percentage of their policyholders.

UCONN
SCHOOL OF LAW

Liability Insurance & Firearm Legislation

- 2022: States: bills pending in several states. Los Angeles is considering a similar ordinance. Federal: legislation introduced each session and not advanced.
- Federal Affordable Care Act prohibits collection of firearm ownership info. 42 USC § 300gg-17(c)
- Florida, for example, has gone the other way:
  - Florida Statute 626.9541
  - Florida Statute 790.338(7)

UCONN
SCHOOL OF LAW

But, Insurers' potential to address gun violence is being more carefully reviewed

Actuarial input on the public health crisis of gun violence is consistent with the history and mission of our profession . . . Actuaries have unique skills in measuring and managing risk. We are experts in mortality analysis, skilled in data analytics and model building, and we can analyze the problem objectively. As a profession, we must employ our skills and talents to help address the economic, mortality and morbidity impact of gun violence.

Kristen Moore and Craig Reynolds: *Firearm Risk: An Insurance Perspective*, The Actuary, June/July 2018
https://theactuarymagazine.org/firearm-risk/

UCONN
SCHOOL OF LAW

Thank You

I would appreciate your thoughts, suggestions, and criticisms.

Peter Kochenburger

University of Connecticut School of Law

Peter.Kochenburger@uconn.edu