NAIC NATIONAL MEETING FALL 2022

Draft date: 12/7/22

2022 Fall National Meeting
Tampa, Florida

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE
Thursday, December 15, 2022
2:15 – 3:30 p.m.
JW Marriott—Tampa Bay Ballroom 5–9—Level 4

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
Mark Fowler	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

AGENDA

1. Consider Adoption of its Summer National Meeting Minutes — Attachment One
   —*Commissioner Alan McClain (AR)*

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. Terrorism Insurance Implementation (C) Working Group
      —*Martha Lees (NY)*
   H. Transparency and Readability of Consumer Information (C) Working Group—*Joy Hatchette (MD)*

3. Consider Adoption of the Revised International Insurers Department (IID) Plan of Operation—*Commissioner James J. Donelon (LA)* — Attachment Three

4. Consider Adoption of the *Regulatory Resources for Consumers on Personal Lines Pricing and Underwriting* and *Rate/Rule Filing Checklist* documents—*George Bradner (CT)* — Attachment Four

5. Consider Adoption of its 2023 Proposed Charges —*Commissioner Alan McClain (AR)* — Attachment Five

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

7. Hear Update on Big Data and Artificial Intelligence (H) Working Group's Artificial Intelligence (AI)/Machine Learning (ML) Private Passenger Public Report—*Commissioner Kevin Gaffney (VT)*

8. Hear a Presentation on Flood Insurance —*Birny Birnbaum (Center for Economic Justice—CEJ)*

9. Discuss Any Other Matters Brought Before the Committee —*Commissioner Alan McClain (AR)*

10. Adjournment

Draft Pending Adoption

Draft: 8/19/22

Property and Casualty Insurance (C) Committee
Portland, Oregon
August 12, 2022

The Property and Casualty Insurance (C) Committee met in Portland, OR, Aug. 12, 2022. The following Committee members participated: Mike Chaney, Chair (MS); Alan McClain, Co-Vice Chair (AR); Anita G. Fox, Co-Vice Chair (MI); Mark Fowler (AL); Ricardo Lara (CA); Andrew N. Mais and George Bradner (CT); Trinidad Navarro (DE); Colin M. Hayashida and Martha Im (HI); Vicki Schmidt (KS); James J. Donelon (LA); Chris Nicolopoulos represented by Emily Doherty (NH); Glen Mulready (OK); Larry D. Deiter (SD); and Allan L. McVey represented by Erin Hunter (WV). Also participating was: Kathleen A. Birrane (MD).

1. Adopted its Aug. 1 and Spring National Meeting Minutes

Director Fox said the Committee adopted the Pet Insurance Model Act on its Aug. 1 conference call.

Commissioner Schmidt made a motion, seconded by Commissioner Lara, to adopt the Committee's Aug. 1 and (Attachment One) and April 7 (*see NAIC Proceedings – Spring 2022, Property and Casualty Insurance (C) Committee*) minutes. The motion passed unanimously.

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

Commissioner Donelon said the Surplus Lines (C) Task Force has been receiving updates from a drafting group revising the *Nonadmitted Insurance Model Act* (#870). The drafting group met six times since its formation, and as a result of those meetings, it addressed 40 comments on the model language. During its May 23 meeting, the Task Force exposed Model #870 for a 60-day public comments period that ended July 21. Commissioner Donelon said the Task Force will be meeting soon to discuss comments.

Mr. Bradner said the Transparency and Readability of Consumer Information (C) Working Group exposed its draft of the *Best Practices for Insurance Rate Disclosures* document in June and received comments. He said the consumer education information section discusses rates, underwriting, and discounts. There were several comments received regarding readability. The drafting group met in July, and NAIC staff are working on making the changes to this piece of the document. Comments have been received on the rate filing checklist, which is based on the checklist that has been used in Kansas for several years. Mr. Bradner noted that Washington released a proposed rule for comments related to a rate filing checklist, which uses language like what is in the disclosure language in the NAIC draft. The disclosure drafting group will meet in August to discuss possible changes to the document based on comments. NAIC staff did a side-by-side comparison on the first draft of Washington's proposed rule, and NAIC staff are updating this comparison to include changes in the second draft. Mr. Bradner said the document could be adopted by the Working Group and forwarded to the Committee by the Fall National Meeting.

David F. Snyder (American Property Casualty Insurance Association—APCIA) asked if the Working Group is looking to adopt the Washington proposal as opposed to disclosure standards in other states. He said the APCIA has concerns about the Washington rate filing checklist, and he believes other state disclosures would be more workable. Mr. Bradner said the Working Group looked at different disclosures, but it is looking for additional information related to rates. Mr. Snyder said insurers have concerns with being able to comply because they are not able to allocate premium increases to individual rate factors.

Commissioner Lara made a motion, seconded by Commissioner Donelon, 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. The motion passed unanimously.

3. Heard a Federal Update

Brooke Stringer (NAIC) said the U.S. Congress (Congress) just passed the Inflation Reduction Act of 2022, which includes significant climate investment. She said the National Flood Insurance Program's (NFIP's) latest extension expires Sept. 30, and another short-term extension is expected. She said senators from Florida, Louisiana, and Mississippi have introduced legislation to reauthorize the NFIP for one year. She also noted that the Federal Emergency Management Agency (FEMA) sent congressional leaders a list of 17 legislative proposals for NFIP reauthorization. The proposals would require legislation in order to become law; they have received mixed reviews from Congress. FEMA is calling for a 10-year reauthorization and focusing on improving the NFIP's financial framework, risk analysis and communication, resilience, and technical/operational enhancements. FEMA included a proposal that the NAIC supports, which would ensure that private flood insurance meets the continuous coverage requirement, so policyholders have a choice to return to the NFIP without losing any subsidy they previously had with the NFIP.

Ms. Stringer said the U.S. Government Accountability Office (GAO) has reached out to the NAIC and is starting work on two separate studies. One is on pandemic business interruption, and the other is on private flood insurance.

Ms. Stringer noted that the U.S. House of Representatives (House) recently passed the Wildfire Response and Drought Resiliency Act (HR 5118), but the measure faces an uncertain future in the U.S. Senate (Senate). House Committee on Financial Services Chairwoman Maxine Waters' (D-CA) Wildfire Insurance Coverage Study Act of 2022 was included in the package that requires FEMA and the GAO to conduct studies assessing the danger wildfires pose to communities and how the market for homeowners insurance is responding to this growing threat. The GAO report would also assess the state insurance regulatory response to increased premium rates, cost-sharing, or both for coverage for damage from wildfires and exclusion of such coverage from homeowners policies.

Ms. Stringer also said the House recently passed the Secure and Fair Enforcement (SAFE) Banking Act for the seventh time, this time as an amendment to the annual National Defense Authorization Act (NDAA). The NAIC supports the SAFE Banking Act, 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. The amended NDAA with the SAFE Banking Act is now in the hands of the Senate, which has delayed its vote until September.

4. Heard a Presentation on Cyber Insurance Data

Aaron Brandenburg (NAIC) said the Committee has a charge to, "Report on the cyber insurance market including data reported within the Cybersecurity Insurance and Identity Theft Coverage Supplement." He said the data currently available does not include alien surplus lines data, but that data would be added later this year within a written report. The Supplement shows that direct written premium for the admitted cyber market is at $4.8 billion in 2021, up 75% from 2020. The number of policies in force declined in 2021; however, most of the decrease was in package policies, which make up the bulk of policies. Stand-alone policies increased by 31% in 2021. He said claims reported grew by about 15% in 2021, and the loss ratio remained stable at around 65%.

Mr. Brandenburg said the largest 15 insurers wrote nearly 75% of the market in 2021. He said industry reports show that 2021 saw underpricing in the cyber insurance market, along with an increase in frequency and severity of cyberattacks. He said much of the premium growth was due to actual pricing increases, rather than additional coverage. The market has recently seen stricter underwriting requirements; reduced limits; higher deductibles; more restrictive terms; and with the rise in ransomware, sublimits to policies.

Mr. Brandenburg also said identity theft insurance coverage within the Supplement does not provide valuable information since much of this coverage is provided within existing policies. He also said a definition for package policies could help insurers understand the data being sought. He said he would distribute a memorandum with recommended changes to the Supplement so Committee members could consider forwarding the recommendations to the Blanks (E) Working Group.

5. Received an Update on the Collaboration Forum on Algorithmic Bias

Commissioner Birrane said the Innovation, Cybersecurity, and Technology (H) committee has a goal of ensuring coordination and cooperation among various working groups working on topics relevant to the Committee. She said the Committee decided to establish a Collaboration Forum to identify the various working groups that touch on algorithmic bias. The Collaboration Forum is focused on communication among groups and education of the issue. The Collaboration Forum had a foundational educational session in Kansas City in July to discuss basic concepts and topics related to algorithmic bias and unfair bias. Commissioner Birrane said there were about 200 regulators that participated, including 37 commissioners. She said the working groups working on related issues will begin to step in to provide some additional regulatory-only foundational education.

Commissioner Birrane also said the Collaboration Forum is building out more public-facing education and information, such as what is being planned at the Insurance Summit, including a session related to marketing. She said the Forum will be working on the definition of key terms and will take public comment on these. She said the Forum will also work on a common framework for what is responsible artificial intelligence (AI) and what sort of tools regulators can rely on.

6. Heard an Overview of a Member Visit to the IBHS

Commissioner Richardson said the Climate and Resiliency (EX) Task Force's Pre-Mitigation Workstream co-hosted a trip with the Center for Insurance Policy and Research (CIPR) to Richburg, SC, in late July where state insurance regulators toured the Insurance Institute for Business and Home Safety (IBHS). She said state insurance regulators toured the lab and discussed how fraud and misconceptions about property insurance drive a lot of consumer complaints following catastrophic events. She said state insurance regulators discussed opportunities to work collaboratively with the IBHS to address consumer complaints through consumer outreach and education. State insurance regulators also discussed the changing market and whether insurers are moving towards different coverages and deductibles due to risks such as severe convective storms. Mitigation actions such as those offered through the IBHS FORTIFIED program, or their recently established Wildfire Prepared Home and Community Programs, can help reduce property damage risk and future potential losses for the industry.

Commissioner Richardson said the IBHS has published research showing the impact of mitigation, and it has released numerous communication pieces that commissioners could use with stakeholders to show how mitigation and fortifying property can lead to risk reduction. IBHS research and messaging is available for use by all state departments of insurance (DOIs). Commissioner Richardson encouraged commissioners to leverage the science and expertise of the IBHS as it considers ways to ensure consumers are protected from natural disaster risks.

7. Discussed its Charge Related to Parametric Insurance

Mr. Brandenburg explained that the Committee has a charge to, "Provide a forum for discussing issues related to parametric insurance and consider the development of a white paper or regulatory guidance." He said NAIC staff have been in contact with several insurers on making presentations in the future. He noted that there has been some work going on related to parametric insurance within the NAIC, including the CIPR having an A-Z topic page that includes academic literature and the Task Force having an innovation workstream, which has heard numerous presentations related to community-based, commercial and personal parametric products.

Mr. Brandenburg said the CIPR web page defines parametric as a contract that " … insures a policyholder against the occurrence of a specific event by paying a set amount based on the magnitude of the event, as opposed to the magnitude of the losses in a traditional indemnity policy." He said a parametric trigger is met when an objective number is measured and verified. A common example is an earthquake that registers a certain magnitude threshold or when a wind speed reading is met. Mr. Brandenburg also noted that there are academic studies and reports concerning whether such products can improve the financial resilience of low-income households in the U.S. and globally, as well as the regulatory environment, including whether the products qualify as insurance or something like a swap.

Mr. Brandenburg said the Innovation Workstream of the Task Force has heard presentations related to community-based coverage, such as coverage for cities or coral reefs. The workstream has also heard about commercial and personal coverages, such as products that make payouts in low-income areas or to assist with high deductibles, such as in earthquake prone areas or hurricanes in Puerto Rico. Mr. Brandenburg also noted that the May 2022 Central U.S. Quake Summit included reinsurers and brokers speaking about parametric products.

Mr. Brandenburg said parametric insurance products may provide several benefits, such as faster claims approval, which leads to faster payouts and lower time and expense for the insurer. The trigger and payout can be customized, helping to get money quickly to policyholders when they may need to make up a percentage deductible to assist their more traditional indemnity product.

Mr. Brandenburg said there are regulatory concerns with parametric products, including the fact that the product typically pays a relatively small amount, which could lead to consumer confusion. He said one of the big questions is whether the products are insurance since they may not meet requirements, including insurable interest, and they may function more like a derivative or swap.

Birny Birnbaum (Center for Economic Justice—CEJ) said parametric products are not insurance, and they are more like the lottery with a possible quick payout based on whether the numbers come out right. He said an event could cause great damage but not hit the threshold and not lead to any benefits under the parametric policy, creating confusion among consumers. He said parametric products currently exist, such as travel delay benefits under travel insurance that are triggered by a threshold. He said the Committee should look at parametric applications that would be of benefit, such as community-based applications.

Director Fox asked NAIC staff to conduct additional research, including what states are thinking about the products. She said it makes sense to collect insurance definitions within the various states. She said NAIC staff may wish to schedule a presentation for the Committee that could lay the groundwork for the issue. This would then aid the Committee as it begins to look more deeply into the products.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/C CMTE/2022_Summer

Draft Pending Adoption

Draft: 11/23/22

Casualty Actuarial and Statistical (C) Task Force
Virtual Meeting (*in lieu of meeting at the 2022 Fall National Meeting*)
November 18, 2022

The Casualty Actuarial and Statistical (C) Task Force met Nov. 8, 2022. The following Task Force members participated: Mike Kreidler, Chair, represented by Eric Slavich (WA); Grace Arnold, Vice Chair, represented by Phil Vigliaturo (MN); Ricardo Lara represented by Mitra Sanandajifar and Lynne Wehmueller (CA); Michael Conway represented by Mitchell Bronson (CO); David Altmaier represented by Greg Jaynes (FL); Colin M. Hayashida represented by Randy Jacobson (HI); Doug Ommen represented by Travis Grassel (IA); Amy L. Beard represented by Larry Steinert (IN); Vicki Schmidt represented by Nicole Boyd (KS); James J. Donelon represented by Nichole Torblaa (LA); Timothy N. Schott represented by Sandra Darby (ME); Chlora Lindley-Myers represented by Julie Lederer (MO); Troy Downing represented by Mari Kindberg (MT); Russell Toal represented by Anna Krylova (NM); Barbara D. Richardson represented by Gennady Stolyarov (NV); Judith L. French represented by Tom Botsko (OH); Glen Mulready represented by Kate Yang (OK); Andrew R. Stolfi represented by David Dahl and Ying Liu (OR); Michael Humphreys represented by Michael McKenney (PA); Michael Wise represented by Karl Bitzky (SC); Cassie Brown represented by Miriam Fisk (TX); and Kevin Gaffney represented by Mary Richter (VT).

1. Adopted its Oct. 18 and Summer National Meeting Minutes

Slavich said the Task Force met Oct. 18 and Aug. 10. During its Oct. 18 e-vote, the Task Force adopted its 2023 proposed charges.

The Task Force also met Oct. 18 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, to discuss rate filing issues.

The Task Force held Predictive Analytics Book Club meetings on Oct. 25 and Aug. 30. On Oct. 25, Sam Kloese (NAIC), Dorothy L. Andrews (NAIC), and Roberto Perez Santiago (NAIC) presented on "P-Values and Alternatives." On Aug. 30, Ryan McMahon (Cambridge Mobile Telematics—CMT) presented on "Current Trends in Telematics."

Vigliaturo made a motion, seconded by Botsko, to adopt the Task Force's Oct. 18 (Attachment One) and Aug. 10 (*see NAIC Proceedings – Summer 2022, Casualty Actuarial and Statistical (C) Task Force*) minutes. The motion passed unanimously.

2. Adopted the Report of the Actuarial Opinion (C) Working Group

Krylova said the Actuarial Opinion (C) Working Group met Sept. 26, Sept. 15, and Sept. 8. The Working Group conducted the Sept. 26 e-vote and adopted 2022 Regulatory Guidance. During its Sept. 15 meeting, the Working Group adopted a comment letter to the Actuarial Standards Board (ASB) regarding the *Actuarial Standard of Practice (ASOP) No. 36, Statements of Actuarial Opinion Regarding Property/Casualty Loss, Loss Adjustment Expense, or Other Reserves Exposure Draft*.

Krylova said changes to the Regulatory Guidance were relatively minor. She said they replaced specific ASOPs with a recommendation to use the ASB's ASOP Applicability Guidelines; replaced the 2018 and 2019 description of changes to the instructions with a brief summary of the latest changes to the instructions; removed two sections that discussed the qualified actuary definition and the continuing education (CE) logging procedure that the Task Force eliminated; added some prospective information about plans to modify qualification documentation and deadlines; and streamlined the section on COVID-19.

Krylova said the Working Group will continue discussion on its referral from the Financial Analysis (E) Working Group regarding predictive analytics in a reserve setting.

Krylova made a motion, seconded by Vigliaturo, to adopt the report of the Actuarial Opinion (C) Working Group, including its Sept. 26 (Attachment Two), Sept. 15, and Sept. 8 minutes (Attachment Three). The motion passed unanimously.

3. Adopted the Report of the Statistical Data (C) Working Group

Darby said the Statistical Data (C) Working Group met Oct. 26 and Sept. 28. During these meetings, the Working Group discussed proposed changes to the *Report on Profitability by Line by State* (Profitability Report) and the *Competition Database Report* (Competition Report). She said the Working Group discussed which proposed changes would improve the usefulness of the reports. Discussion will continue regarding the proposed changes for these reports, as well as potential changes to the *Auto Insurance Database Report* (Auto Report) and the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). Darby said any adopted changes to the reports will not be implemented until 2023.

The Working Group will meet Nov. 17 in regulator-to-regulator session to review and consider adoption of the 2020 Homeowners Report and the 2021 Profitability Report. The 2019/2020 Auto Report and the 2021 Competition Report will be considered for adoption, likely with an e-vote, at the end of November. After adoption, these reports will be sent to the Task Force for review and adoption before being released publicly.

Darby said the Working Group adopted accelerated timelines for the submission of the Homeowners Report and Auto Report. Collection of 2021 premium and exposure data is underway, with a due date of Dec. 1 for both reports.

Darby made a motion, seconded by Botsko, to adopt the report of the Statistical Data (C) Working Group, including its Oct. 26 (Attachment Four) and Sept. 28 (Attachment Five) minutes. The motion passed unanimously.

4. Adopted Updated LCM Form and Instructions

Slavich said the idea to create an updated loss cost multiplier (LCM) form was brought forward at the Spring National Meeting, after which Steinert led a Subgroup to update and combine the NAIC's numerous LCM forms. The initial proposal was exposed for a public comment period ending Feb. 7. The Subgroup produced a revised form and presented it July 12. Steinert noted there is also a memorandum that should accompany the form. The Task Force exposed the revised memorandum and the revised LCM form together for a 45-day public comment period. After that comment period, one comment letter was received (Attachment Six). The LCM form was updated in response to the comment.

Vigliaturo made a motion, seconded by McKenney, to adopt the updated LCM form and accompanying memorandum (Attachment Seven). The motion passed unanimously with two abstentions.

5. Exposed the Potential Elimination of the Expense Constant Supplement

The Task Force discussed the potential elimination of the NAIC Expense Constant Supplement for perceived lack of need. To investigate for any unknown need, the Task Force agreed to expose the proposal to eliminate the NAIC Expense Constant Supplement for a 45-day public comment period ending Dec. 22. Slavich said comments to keep the form or eliminate the form are welcome. Steinert said elimination of the NAIC form does not preclude a state from using a similar form on its own.

6. Heard Reports from Professional Actuarial Organizations

The American Academy of Actuaries' (Academy's) Committee on Property and Liability Reporting (COPLFR) and Casualty Practice Council (CPC), the Actuarial Board for Counseling and Discipline (ABCD), and the Casualty Actuarial Society (CAS) provided reports on current activities. The Society of Actuaries (SOA) provided a written report.

Having no further business, the Casualty Actuarial and Statistical (C) Task Force adjourned.

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NAIC NATIONAL MEETING FALL 2022

2022 Fall National Meeting
Tampa, Florida

SURPLUS LINES (C) TASK FORCE
Monday, December 12, 2022
3:30 – 4:30 p.m. ET

Meeting Summary Report

The Surplus Lines (C) Task Force met Dec. 12, 2022. During this meeting, the Task Force:

1. Adopted its Oct. 17 and May 23 minutes.

2. Adopted the report of the Surplus Lines (C) Working Group, which met Dec. 7 and Oct. 19 in open sessions and Dec. 8 in regulator-to-regulator session, pursuant to paragraph 3 (specific companies, entities or individuals) of the NAIC Policy Statement on Open Meetings. The Task Force also adopted amendments to the International Insurers Department (IID) Plan of Operation, which are discussed within the report.

3. Discussed comments received on the draft *Nonadmitted Insurance Model Act* (#870).

NAIC NATIONAL MEETING FALL 2022

2022 Fall National Meeting
Tampa, Florida

TITLE INSURANCE (C) TASK FORCE
Wednesday, December 14, 2022
3:45 – 5:00 p.m. ET

Meeting Summary Report

The Title Insurance (C) Task Force met Dec. 14, 2022. During this meeting, the Task Force:

1. Adopted its Oct. 24 minutes, which included the following action:
   A. Adopted its 2023 proposed charges by e-vote. The new charges include the addition of charges to: 1) update the *Survey of State Insurance Laws Regarding Title Data and Title Matters*; 2) review Section 15C of the *Title Insurers Model Act* (#628) to determine if a request should be made to remove the requirement for on-site review of underwriting and claims practices; and 3) obtain information on consumer complaints submitted to states regarding title insurance to determine if updates are needed to insurance regulatory best practices or standards.

2. Heard a presentation on Voxtur Analytic's new product it sells as an alternative to title insurance through its Attorney Opinion Letter (AOL) program. The attorney's opinion of title is backed by surplus lines transactional liability insurance. Voxtur Analytic currently offers AOL in select states and plans to make it available throughout the U.S. in the coming months.

3. Heard a presentation on closing trends, including results from the American Land Title Association's (ALTA's) recent digital closing survey. Use of remote online notarizations (RONs) is expected to grow with 20% of companies indicating they plan to begin offering RON within the next 2 years.

Draft Pending Adoption

Draft: 11/23/22

Workers' Compensation (C) Task Force
Virtual Meeting (*in lieu of meeting at the 2022 Fall National Meeting*)
November 15, 2022

The Workers' Compensation (C) Task Force of the Property and Casualty Insurance (C) Committee met Nov. 15, 2022. The following Task Force members participated: Alan McClain, Chair, and Jimmy Harris (AR); John F. King, Vice Chair, and Steve Manders (GA); Mark Fowler represented by Jennifer Dabney-Brown and Erick Wright (AL); Peni Itula Sapini Teo represented by Elizabeth Perry (AS); Ricardo Lara represented by Yvonne Hauscarriague and Giovanni Muzzarelli (CA); Andrew N. Mais represented by Wanchin Chou and Amy Waldhauer (CT); Karima M. Woods represented by Angela King (DC); Trinidad Navarro represented by Lucretia Prince and Jeffry Schott (DE); David Altmaier represented by Greg Jaynes (FL); Doug Ommen represented by Travis Grassel (IA); Dean L. Cameron represented by Randy Pipal (ID); Vicki Schmidt represented by Julie Holmes, Sara Hurtado, and Cassandra McCall (KS); James J. Donelon represented by Tom Travis (LA); Timothy N. Schott represented by Brock Bubar, Sandra Darby, and Robert Wake (ME); Grace Arnold represented by Tammy Lohmann (MN); Chlora Lindley-Myers represented by Tina Grinde, Jo LeDuc, and Rebecca Shavers (MO); Mike Causey represented by Fred Fuller (NC); Marlene Caride represented by Carl Sornson (NJ); Andrew R. Stolfi represented by David Dahl, Brian Fordham, and TK Keen (OR); Michael Humphreys represented by Lu Cisoffeng; Shannon Kost, Michael McKenney, Dennis Sloand, and Eric Zhou (PA); Elizabeth Kelleher Dwyer represented by Beth Vollucci (RI); Michael Wise represented by Will Davis (SC); Larry D. Deiter and Tony Dorschner (SD); Jon Pike (UT); Kevin Gaffney, Pat Murray, and Rosemary Raszka (VT); and Allan L. McVey, Matthew L. Harvey, and Erin K. Hunter (WV). Also participating were Reid McClintock and Judy Mottar (IL); Thomas Faust (IN); Paige Dickerson and Tina Nacy (MI); Connie Van Slyke (NE); Christian Citarella (NH); Anna Krylova and Bogdanka Kurahovic (NM); Cuc Nguyen and Andrew Schallhorn (OK); Brian Hoffmeister and Jessica Thomas (TN); Nicole Elliott (TX); and Rebecca Nichols (VA).

1. Adopted its Oct. 7 and Summer National Meeting Minutes

The Task Force conducted an e-vote that concluded Oct. 7 to adopt its 2023 proposed charges.

Commissioner King made a motion, seconded by Commissioner McVey, to adopt the Task Force's Oct. 7 minutes (Attachment-One) and Summer National Meeting minutes. The motion passed unanimously.

2. Heard a Presentation from the NCCI on Federal Updates as They Pertain to Workers' Compensation

Susan Donegan (NCCI) said the conversation regarding cannabis continues at both the state and federal level. These ongoing conversations include both recreational and medical cannabis. Bipartisan dialogues started last year at the federal level, and it appears these conversations will continue.

Donegan said the House Subcommittee on Civil Rights and Civil Liberties is holding a hearing today regarding cannabis reform. The title of the hearing is "Developments in State Cannabis Laws and Bipartisan Cannabis Reform at the Federal Level." The hearing includes witnesses from advocacy groups and veterans' groups. Of note, the use of cannabis for post-traumatic stress disorder (PTSD) has been gaining attention. Additionally, a discussion regarding the removal of obstacles to using medical cannabis more freely has received attention.

Thousands of people convicted of simple possession of cannabis charges were pardoned recently by the Biden administration. This action has put a spotlight on cannabis reform at the federal level. During the 2022 midterms, a group of states put the legalization of cannabis on their ballots. Maryland and Missouri voted to legalize recreational cannabis. However, North Dakota and South Dakota did not pass a law to legalize the use of cannabis recreationally.

Donegan said the cannabis business is something the banking and insurance industry is trying to understand. Without federal law legalizing cannabis, liability exists for financial institutions, and many insurers do not want to or believe they can, write insurance for businesses in the cannabis sector.

Donegan said several states have been considering implementing single-payer health care at the state level. She said this would better be addressed following the meeting of the new Congress.

Donegan said that in early October, the Biden administration, under the federal Fair Labor Standards Act (FLSA), issued a call for comments for a proposed rule issued on Oct. 13. This rule is about determining whether workers are employees or independent contractors. The proposed rule would limit the use of "independent contractor" like what California implemented. This rule states an employee must not be "economically depended on their employer for work and are in business for themselves." If an employee is economically dependent, they are to be classified as an employee, and therefore entitled to minimum wage, overtime, and other protections, such as workers' compensation.

Donegan said there will be legal challenges to this rule, as businesses believe this rule is a burden. Some studies show when a business is forced to cover employees they feel do not belong in the "worker" category, it increases their costs by approximately 30%. The legal challenges will encompass whether agencies can adequately explain why they need to change the existing rule, as the existing rule is more expansive. Comments are open until the end of November, so there will likely be more discussion in December.

Jeff Eddinger (NCCI) said the recent workers' compensation environment has been favorable to decreasing loss costs. Workers' compensation is unique in that the exposure base is sensitive to inflation. Payroll is the exposure base for workers' compensation, so as wages increase, premiums automatically increase. If workers' compensation benefits paid out increase at the exact same pace that wages and premiums increase, the system would remain in balance.

The recent environment indicates that the benefits paid out are not keeping pace with the increase in premium. Benefits that are paid out are equal to the number of claims that occur and the severity of the claims, or the average cost of these claims. In recent years, the severity of claims has increased approximately 2% slower than wages. Eddinger said there are a couple of reasons for this: 1) not all indemnity benefits are tied directly to wages; and 2) there are maximums for indemnity payments.

Eddinger also said that most states have medical fee schedules, as well as other facility and physician fee schedules, which keep benefit costs increasing at a slower rate than wage increases. Additionally, workers' compensation premiums, through the modifications, can be lowered by reducing claims and increasing safety. The NCCI has continued to see the frequency of claims decrease by an average of approximately 4% per year.

Eddinger said over the past nine years, the NCCI has been decreasing loss costs by about 6% a year.

Eddinger said the combined ratio compares the benefits and expenses paid out to the amount of premium collected. Even with the recent rate decreases, the combined ratio on a countrywide basis has consistently been exceeding the benefits and expenses paid out. The countrywide, private carrier combined ratio averages about 86% over the past five years. Recently, the NCCI published an update to the workers' compensation financial results. This update shows that for 2022, the private carrier direct written premium increased almost 10% through the first half of the year, as compared to previous years. The calendar year 2022 loss ratio through the first half of the year shows improvement over the previous year through the first six months. This provides an idea of what next year might look like. Even with the rate decreases, premiums are still exceeding the benefits that are being paid out.

Eddinger said for years, the NCCI has been asked about when premiums will take a turn and begin increasing again. The NCCI cannot predict if or when rates might begin increasing, but he said he believes it is necessary to prepare for it and to be willing to consider a loss cost increase if warranted. Eddinger said he believes the NCCI's selections in its filings are designed using assumptions that do not necessarily just use the past improvements and project them forward. The NCCI's rate filings are conservative, realizing that what has happened in the past may not continue at the same rate in the future.

Donegan said the important thing for state insurance regulators is solvency. She said the NCCI's focus is always about rate adequacy, as it is the foundation for solvency.

McKenney suggested the Task Force add a new 2023 charge to monitor the impact of telework on workers' compensation. He said he would like to see some presentations regarding teleworking and its impact on workers' compensation. McKenney said he does not think that waiting to see how telework affects workers' compensation in the future is prudent and that he would like the Task Force to gain a little more perspective. Commissioner McClain said he would look at adding this to the Task Force's 2023 charges.

McKenney said he believes the NCCI and other independent bureaus are in the process of changing or considering how COVID-19 claims are treated in experience modifications, as well as how they are treated for rate-making purposes, how they are captured statistically, and how teleworkers should be classified or reclassified. He said he would like for the Task Force to discuss these items.

Commissioner McClain said the changing workforce is another item he would like the Task Force to discuss soon, likely at the Task Force's next meeting.

Having no further business, the Workers' Compensation (C) Task Force adjourned.

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Draft: 12/1/22

Cannabis Insurance (C) Working Group
Virtual Meeting (*in lieu of meeting at the 2022 Fall National Meeting*)
November 29, 2022

The Cannabis Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met Nov. 29, 2022. The following Working Group members participated: Ricardo Lara, Chair, represented by Melerie Michael and Camilo Pizarro (CA); Michael Conway, Vice Chair, represented by Peg Brown (CO); Jimmy Harris (AR); Angela King (DC); Christina Miller (DE); C.J. Metcalf (IL); Marlene Caride represented by Randall Currier (NJ); Gennady Stolyarov (NV); Andrew R. Stolfi represented by Jan Vitus (OR); Sebastian Conforto (PA); Elizabeth Kelleher Dwyer represented by Beth Vollucci (RI); Karla Nuissl (VT); and Michael Walker (WA).

1. Adopted its Oct. 19 Minutes

Brown made a motion, seconded by Currier, to adopt the Working Group's Oct. 19 minutes (Attachment Two-A). The motion passed unanimously.

2. Received an Update on Drafting the *Understanding the Market for Cannabis Insurance 2.0* White Paper

The drafting group continues to meet every two to three weeks, and the *Understanding the Market for Cannabis Insurance 2.0* white paper draft is nearly complete. The drafting group is now focused on leveraging information gained during the panel discussion to update the legislative pieces of the white paper for recent activities. Emerging issues, such as on-site consumption, will be explored in 2023 and added to the white paper through an appendix. This will allow the Working Group to publish the white paper without the paper becoming outdated. The drafting group anticipates bringing the completed draft before the Working Group by early next year with full adoption by the next Summer National Meeting.

3. Heard a Panel Discussion on Recent Federal and State Political Movements and How They May Affect the Industry

Michael asked what the outlook for legislative initiatives, such as the Secure and Fair Enforcement (SAFE) Banking Act, the Clarifying Law Around Insurance of Marijuana (CLAIM) Act, the Marijuana Opportunity Reinvestment and Expungement (MORE) Act, Cannabis Administration and Opportunity Act (CAOA), and the Medical Marijuana and Cannabidiol Research Expansion Act is in the lame-duck session and beyond.

Michael Correia (National Cannabis Industry Association–NCIA) stated the SAFE Banking Act, passed by the U.S. House of Representatives (House) in 2019, was the first time the U.S. Congress (Congress) passed a major cannabis reform. The House Democrats have since passed multiple versions of cannabis legalization bills. The SAFE Banking Act has been passed by the House on seven separate occasions, with strong bipartisan support, so it would likely have less trouble being passed by the U.S. Senate (Senate) than some of the other bills. The Medical Marijuana Research Act has been passed by both sides of Congress and is awaiting President Joe Biden's signature. Bills on the legalization of cannabis do not have strong bipartisan support in the Senate, which tends to move slower and be more conservative. The SAFE Banking Act is being discussed in Congress. Correia said he is optimistic that a version of it will be passed.

Brooke Stringer (NAIC) stated that in 2021, the NAIC voted to endorse the SAFE Banking Act and the CLAIM Act. The CLAIM Act is more focused on insurance. The NAIC represents 56 jurisdictions and takes no position on issues such as legalization, but instead defers to whatever has been decided by each state. It supports these bills as it assists policy issues affecting those states that have chosen to legalize cannabis in some form. There is great bipartisan support for certain bills in the Senate; however, the rules in the Senate are such that one senator can put a hold on something, so Stringer is cautiously optimistic.

Nicole Austin (Reinsurance Association of America–RAA) stated that the RAA, the American Property Casualty Insurance Association (APCIA), the Council of Insurance Agents & Brokers (CIAB), the American Council of Life Insurers (ACLI), the Wholesale & Specialty Insurance Association (WSIA), the Independent Insurance Agents & Brokers of America (IIABA), Professional Insurance Agents (PIA), the American Land Title Association (ALTA), and the National Association of Mutual Insurance Companies (NAMIC) support the SAFE Banking Act and the CLAIM Act. The CLAIM Act provides a safe harbor for the entire industry from agent to reinsurer and all the activities that are involved. The RAA is excited that the NAIC endorsed these acts. The RAA does not take a position on the legalization of cannabis, but it supports the states' positions on it. It is important that the insurance industry can do business with cannabis-related businesses that are state legalized *and* the businesses that do business with them. A notable example was provided by a senator from Ohio about the bank account for an irrigation company being shut down when it sold one of its manufactured farm systems to a cannabis grower. The RAA believes there is a high probability that the SAFE Banking Act with the insurance safe harbor will pass if there is a large omnibus spending package, which Austin believes is likely, during the lame-duck session. Research, social equity, and other issues may be added to the SAFE Banking Act to gain more bipartisan support.

Morgan Fox (National Organization for the Reform of Marijuana Laws–NORML) stated that U.S. Sen. John Cornyn (R-TX) made a procedural protest that delayed the passage of the Medical Marijuana and Cannabidiol Research Expansion Act in September, despite his stated support for cannabis research. The protest was related to broader frustrations that the opposite chamber had not acted on his own unrelated proposals. This is an example of how a single senator can hold things up. The NORML is disappointed the passed bill did not include the House provisions that researchers would be able to access cannabis products that are available in regulated markets. However, it recognizes that it is the first standalone cannabis policy legislation that has ever passed through both chambers of Congress. There will be a lot of opportunities in the House Committee on Appropriations in the near future. Fox believes there will be a continuing resolution until the next session. The ultimate spending package will most likely include the SAFE Banking Act with some antidiscrimination measures and explicit protections for minority deposit institutions. There will likely also be funding for state-level expungement efforts, which is important since most related convictions are at the state level. Bipartisan support for conviction relief, especially with federal funding, is a very new occurrence that was not seen just three years ago.

Stringer stated that the midterm results in Georgia would give a good sense of the makeup of the Senate next year.

Austin stated that any package before the next Congress would likely have the SAFE Banking Act included. The good news is there is no language in the insurance space that is under threat in the SAFE Banking Act.

Fox stated that although the Medical Marijuana and Cannabidiol Research Expansion Act has been passed, it will be a long time before the research stemming from it will be available. However, there is enough research data now to justify making substantive federal changes in policy and law. Even incremental legislative changes propel the issue forward as it raises education and comfort among politicians.

Stringer stated that insurance has long tentacles and touches everything. There are a lot of opportunities for the insurance industry to encounter the potential for federal action if they serve the cannabis-related industry. Therefore, it is important to move forward on legislative pieces everyone can support, regardless of how comprehensive or incremental.

Austin said the insurance industry supports the passage of legislation providing a safe harbor. The insurance industry is poised to provide products and services to existing customers and ancillary businesses. There are no products and services being offered in the cannabis space, and a safe harbor is needed for this to happen.

Michael stated that on Oct. 7, Biden announced that he would issue pardons to everyone convicted of the federal crime of simple marijuana possession. He also called for governors to make similar moves for convictions under state laws. Michael asked about the implications of this announcement and an explanation of the difference between a pardon and an expungement.

Correia stated that the president's move was historic and symbolic, but he was surprised it was not done at the beginning of his term given how popular the pardon has been.

Fox stated that the pardon would only affect 6,500 people, as most of the simple cannabis possession charges occur at the state level. Twenty states have begun expungements, with two million expungements having already occurred. A pardon is just a note on your record indicating that a presidential pardon has taken place. This helps with civil penalties involved with having a conviction record, such as voting rights. An expungement removes the conviction from the record. However, background check companies may still include the charge. The president's announcement was met with overwhelming bipartisan support. Directing the U.S. Department of Health and Human Services (HHS) to review the marijuana placement on the schedule of controlled substances is symbolically big. However, in practice, there will not likely be much movement on this issue until Congress acts.

Currier asked for clarification on whether the medical research bill has passed. Fox stated that it has not been signed by the president yet, but it is awaiting his signature. The White House has indicated that the president will sign it as soon as it is officially transmitted. It was sponsored in the Senate by U.S. Sen. Dianne Feinstein (D-CA) and U.S. Sen. Chuck Grassley (R-IA) and in the House by U.S. Rep. Earl Blumenauer (D-OR) and U.S. Rep. Barbara Lee (D-CA). The bill will create a facilitation mechanism for approving more research submissions and applications and more research production. Currently, there is only one legal federal producer and provider of research-grade cannabis, and it is too subpar for useful research. This legislation does not allow researchers to be able to access products from legal state markets. Universities would not want to risk losing federal funding by going outside of the federal guidelines. This bill expedites the application process and sets a more stringent timeline for the approval or denial of applications. In the past, these applications could flounder for years in bureaucracy.

Michael stated that the Farm Bill removed hemp from Schedule 1 of the Controlled Substances Act (CSA) and permitted states to create industrial hemp programs. However, the U.S. Food and Drug Administration (FDA) also stated that marketing cannabidiol (CBD) as foods or dietary supplements remains unlawful. This creates uncertainty and product liability coverage concerns in a market now saturated with hemp and CBD products. Michael asked if there have been legislative attempts to clarify the federal legality of CBD and/or the role of the FDA and what role the FDA should play. She also asked if there have been any federal or state legislative movements toward regulating or restricting synthetic cannabinoids derived from legal hemp.

Fox stated that the legality of CBD is established under the Farm Bill, but the FDA has been slow to regulate things like CBD and synthetic cannabinoids. Although there is significant debate, he does not believe synthetic

cannabinoids are legal under the Farm Bill. There is one circuit court that has ruled that they are legal under the Farm Bill. Ultimately, it will be decided by the U.S. Supreme Court. The fact that CBD has not been regulated or cleared by the FDA has created a situation where large-scale retailers are unwilling to carry CBD products. It is also resulting in a lot of CBD products being mislabeled or lacking labels with professed amounts of CBD or disclosure that they might contain heavy metals. The only testing requirements are from existing state medical cannabis systems, which are now in the minority of CBD products that are available on the commercial market. This has resulted in untested and unregulated products with little scientific research on their clinical effectiveness being sold in gas stations. This creates serious issues for insurers, consumers, businesses producing and selling, and state insurance regulators. The FDA needs to start regulating CBD as soon as possible. It is a good sign that the FDA recently hired a former New York state insurance regulator to start to weigh in on these issues. There is a role for the FDA in an eventual rescheduling and federal regulatory regime, but it should be limited. Most of the regulatory oversight for cannabis products should fall to another agency that is more suited for it.

Correia stated that the fact that the Farm Bill was passed four years ago and the federal government is still working on its related issues illustrates how slow bureaucracy is to catch up to a fast-moving industry. Hemp is a policy issue that needs to be addressed. The original intent was to separate intoxicating and non-intoxicating cannabis. Technology advancements have now made it possible to synthesize intoxicating cannabinoids out of a product originally assumed to hold no intoxicating potential. The NCIA published a paper in 2019 on its perspectives surrounding a federal regulation system on cannabis.

Michael stated that the federal-state law conflict is particularly evident in the financial services sector where cannabis businesses are limited to state charter banks and may incur higher banking fees. She asked if there have been legislative solutions proposed.

Stringer stated that the NAIC will continue to support the SAFE Banking Act and the CLAIM Act. Austin stated that insurers are poised to do business in the cannabis space, but the looming federal-state conflict threat needs to be solved. The SAFE Banking Act and the CLAIM Act are the perfect answer to solving this conflict between federal and state laws.

Having no further business, the Cannabis Insurance (C) Working Group adjourned.

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2022 Fall National Meeting
Tampa, Florida

JOINT MEETING OF THE CATASTROPHE INSURANCE (C) WORKING GROUP
AND THE NAIC/FEDERAL EMERGENCY MANAGEMENT AGENCY (FEMA) (C) ADVISORY GROUP
Monday, December 12, 2022
12:00 – 2:00 p.m. ET

Meeting Summary Report

The Catastrophe Insurance (C) Working Group and the NAIC/FEMA (C) Advisory Group met in joint session Dec. 12, 2022. During this meeting, the Working Group and Advisory Group:

1. Adopted its Summer National Meeting minutes.

2. Heard an update from FEMA regarding the National Flood Insurance Program (NFIP). The presentation included information about using a model that enables consumers to act prior to a disaster. FEMA is seeking to be aware of and responsive to all individuals and communities, making sure the benefits of its program are available to everyone by using a consumer-centric model. FEMA also discussed the NFIP transformation, which includes the redesign of policy forms, as well as direct-to-customer innovations. FEMA continues to work with the U.S. Congress to assure long-term reauthorization.

3. Heard a presentation from Florida on Hurricanes Ian and Nicole. The Florida Office of Insurance Regulation (FLOIR) set up disaster response centers with a FEMA presence. The homes built to newer Florida building codes reduced damage.

4. Heard an update from FEMA on the interaction with the Florida Office of Insurance Regulation (FLOIR) in the recovery of hurricanes Ian and Nicole. FEMA presented regarding the NFIP's National and Region 4 status, as well as presenting a hurricane Ian claims report. FEMA also discussed the NAIC/FEMA Region 4 Working Group's activities.

5. Heard an update from FEMA on training opportunities and resources. FEMA discussed its available webinars, as well as provided some helpful resources for state insurance regulators. FEMA provided a map of its regions, including its flood insurance liaisons for each region. It also provided information about how the FEMA regions can help the departments of insurance (DOIs).

6. Heard an update on federal legislation. The NAIC continues to support the federal Disaster Mitigation and Tax Parity Act. The U.S. Senate passed the Community Disaster Resilience Zones Act and the FEMA Improvement, Reform, and Efficiency (FIRE) Act on Sept. 28. The U.S. House passed the Wildfire Response and Drought Resiliency Act, which included the House's Wildfire Insurance Coverage Study Act.

7. Heard a presentation from the NAIC regarding a survey on wind/hail deductibles that was sent to the DOIs. The survey asked questions regarding separate roof deductibles, as well as actual cash value

(ACV) versus replacement cost value (RCV). The survey also asked states for information regarding extended replacement cost.

8. Heard an update on the *Catastrophe Modeling Primer*, which is being drafted by a drafting group. The Primer will be a bridge to the training that the Catastrophe Modeling Center of Excellence (COE) is developing. The drafting group will continue to meet on a regular basis.

9. Heard an update on how the private flood insurance numbers compare to NFIP figures. The data shows the increase in the number of private flood insurance policies has not kept up with the decrease in the number of NFIP policies.

Draft: 12/7/22

Terrorism Insurance Implementation (C) Working Group Virtual Meeting
(*in lieu of meeting at the 2022 Fall National Meeting*)
November 30, 2022

The Terrorism Insurance Implementation (C) Working Group of the Property and Casualty Insurance (C) Committee met Nov. 30, 2022. The following Working Group members participated: Martha Lees, Chair (NY); Chad Bennett (AK); Monica Macaluso (CA); Rolf Kaumann (CO); Patrick Drake (CT); Ainsley Hurley (FL); Caleb Huntington (MA); Tim Johnson (NC); Carl Sornson (NJ); Cuc Nguyen (OK); Jan Vitus (OR); Beth Vollucci (RI); J'ne Byckovski and Mark Worman (TX); and Dan Petterson (VT).

1. Received an Overview of Data Related to Workers' Compensation Terrorism Risk

Aaron Brandenburg (NAIC) reported on terrorism risk insurance data concerning workers' compensation. He said data for the workers' compensation portion of the state regulator terrorism risk insurance data call was received from the National Council on Compensation Insurance (NCCI) and independent bureaus for the 47 non-monopolistic states. Data for 2019 was due to state insurance regulators by March 1, 2022.

The percentage of workers' compensation policies that have an explicit terrorism charge has fallen slightly, from a little more than 84% in 2011 to about 82.5% in 2019. This means about 17% to 18% of policies cover workers' compensation terrorism coverage for no charge. The Northeast Zone had the highest percentage of workers' compensation policies with an explicit charge for terrorism risk.

The analysis next looked at the percentage of the terrorism premium as compared to the total earned premium for policies indicating an explicit terrorism charge. This has remained steady at around 1.4%. The District of Columbia had the highest percentage, with more than 13% of the premium being a terrorism charge in 2019. The Northeast Zone had the highest percentage of terrorism premium compared to the total earned premium for policies indicating an explicit terrorism charge.

The average terrorism premium per policy has fallen slightly, from $177 in 2011 to $174 in 2019. The average terrorism premium when there is an explicit charge has stayed steady at around $211 in 2019, though this is a decrease from the past few years. The Northeast Zone had the highest average terrorism premium in the period 2011 to 2019.

When looking at payroll categories, only the lowest payroll category had fewer than 89% of policies with an explicit terrorism charge. The terrorism premium moved up substantially as the payroll category grew higher. Terrorism premium for insureds with a payroll category greater than $5 million experienced a drop in average premium of over 15% from 2011 to 2019.

2. Received an Update on the Joint Terrorism Risk Insurance Data Call

Brandenburg provided an overview of the data received in the joint U.S. Department of the Treasury (Treasury Department)/state insurance regulator terrorism risk insurance data call. This data is received in mid-May every year. He said there are some caveats within the data in terms of companies not filing or filing incorrect data. He said the NAIC has put the data into a Tableau tool for state insurance regulators so they can access and analyze the data.

Brandenburg said in terms of nationwide premium eligible for the Terrorism Risk Insurance Program (TRIP), $107.4 billion premium was reported in 2021 compared to $102.2 billion in 2020, $100.7 billion in 2019, and $111.2 billion in 2018. The largest lines of business with TRIP-eligible premium were other liability and commercial multi-peril – non-liability. He said $67 billion, or 62%, of the $107.4 billion in total premium eligible nationwide for federal Terrorism Risk Insurance Act (TRIA) coverage had terrorism coverage in 2021. This is similar to prior years, with 59% and 62% of total eligible premium with terrorism coverage in 2020 and 2019, respectively.

The analysis found the lines of business with the largest percentage of total premium with terrorism coverage countrywide were boiler and machinery at 85% and commercial multi-peril (liability and non-liability) at 79%. Products liability and aircraft had the lowest percentage of total premium with terrorism coverage at 46% and 51%, respectively.

A take-up rate was calculated by policy, which can only be done for non-small insurers' premiums. The analysis found 71% of policies nationwide had terrorism coverage in 2021 compared to 82% and 83% in 2020 and 2019, respectively. Brandenburg noted that when looking at only filers that reported in all years, the percentage of policies with terrorism coverage actually rose to 73% in 2021 from 66% and 70% in 2020 and 2019, respectively. Commercial multi-peril – liability had the highest percentage of policies with terrorism coverage nationwide in 2021 at 82%.

All but two states had take-up rates of at least 60% in 2021. Four states had take-up rates of at least 80%. Eight states had at least 55% of their policies with an implicit charge for terrorism coverage. Five jurisdictions had over 70% of their policies with an explicit charge for terrorism coverage.

About 2% of the total premium for terrorism coverage was allocated to terrorism risk in 2021. Premium explicitly allocated to terrorism risk nationwide was $1.3 billion in 2021, representing 1.9% of total premium for terrorism coverage. For non-small insurers, commercial multi-peril had 3.4% of its premium allocated to terrorism risk. For small insurers, 1.1% of premium was allocated to terrorism risk in 2021. The average total premium for policies where terrorism coverage exists was $3,011 nationally in 2021, compared to $2,847 in 2020. The average premium for terrorism coverage was $115 nationally in 2021, compared to $109 in 2020.

Brandenburg said the data could be made available to state insurance regulators in a Tableau tool upon request.

3. <u>Discussed the 2023 Terrorism Risk Insurance Data Call</u>

Lees said the request for workers' compensation data will be submitted to the NCCI and independent bureaus in early 2023. For the remaining data, states will work with Treasury Department to determine if any changes will be made to the data requested to be submitted in mid-May. Lees reminded the Working Group that the State Supplement that had asked for ZIP code-level data in prior years was paused in 2022.

Having no further business, the Working Group adjourned.

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Draft: 11/28/22

Transparency and Readability of Consumer Information (C) Working Group
Virtual Meeting (*in lieu of meeting at the 2022 Summer National Meeting*)
November 15, 2022

The Transparency and Readability of Consumer Information (C) Working Group of the Property and Casualty Insurance (C) Committee met Nov. 15, 2022. The following Working Group members participated: Joy Hatchette, Chair (MD); Yada Horace (AL); Bobbie Baca (CO); George Bradner (CT); Angela King (DC); Julie Rachford and Robert Rapp (IL); Sara Hurtado and Brenda Johnson (KS); Ron Henderson (LA); Carrie Couch and Jeana Thomas (MO); Kathy Shortt (NC); Chris Aufenthie (ND); Kara Bates (OR); Cuc Nguyen (OK); David Buono (PA); Beth Vollucci (RI); Marianne Baker and J'ne Byckovski (TX); and Samantha Chase (WV). Also participating were: Christina Miller and Jeffry Schott (DE); Jane Nelson (FL); Kate Kixmiller and Stephanie Tompkins (IN); Renee Campbell (MI); Tynesia Dorsey (OH) Tony Dorschner and Gretchen Brodkorb (SD); Manabu Mizushima and Andrew Davis (WA); Darcy Paskey (WI); and Bill Cole and Tana Howard (WY).

1. Adopted its Summer National Meeting Minutes

Bradner made a motion, seconded by Allen, to adopt the Working Group's Summer National meeting minutes (*see NAIC Proceedings – Summer 2022, Property and Casualty Insurance (C) Committee, Attachment --*). The motion passed.

2. Adopted the *Regulator Resources for Consumers on Personal Lines Pricing and Underwriting* Document

Hatchette said the drafting group for the consumer education document on pricing and underwriting of personal lines products had completed its work. The purpose of the document is to provide state insurance regulators with information they can use in social media, bulletins, and any other means of consumer education for which a department of insurance (DOI) might have the need. This document is not meant to be a standalone document that is handed out as a printed version. However, the document or portions of the document could be used for printed information.

The document has been exposed and reviewed several times for consumer readability. Comments from state insurance regulators and interested parties have been incorporated into the final document.

Baker said she had a few editorial changes she suggested be made. Hatchette asked Baker to send the changes to NAIC staff.

Hatchette said the document needed a formal name, as it has been referred to as the consumer education premium document. The Working Group agreed on *Regulator Resources for Consumers on Personal Lines Pricing and Underwriting.*

Birny Birnbaum (Center for Economic Justice—CEJ) asked if the Working Group was planning on conducting consumer testing for this document. Hatchette said she could only speak for Maryland. She said the DOI uses several types of social media to communicate messages to consumers, such as Facebook, Twitter, LinkedIn, and Next Door. Hatchette said the DOI monitors comments, and if a comment indicates a consumer does not understand the message, the DOI reaches out to the consumer to determine what is not understood and

addresses the issue. She said she would then inform the Working Group regarding what occurred for further discussion.

Birnbaum said he has concerns that the document will be distributed, and then the Working Group will not discuss it in the future. He said it would be helpful if there was some type of plan to monitor the document's use and effectiveness. Hatchette said this is something the Working Group could consider doing in 2023 and 2024. She said the Working Group could work on developing a way to monitor the documents that are created and put some steps in place to monitor this document, as well as others.

Bradner made a motion, seconded by Shortt, to adopt the *Regulator Resources for Consumers on Personal Lines Pricing and Underwriting* document (Attachment-XX) with the suggested editorial changes. The motion passed.

3. Adopted its *NAIC Rate Rule Filing Checklist*

Hatchette said the purpose of this document is to provide a checklist for DOIs wanting to provide insurers as part of the filing process to ensure the necessary information is provided with the filing. This checklist alleviates the need for a DOI to have to ask the insurer for missing information by providing a checklist with a list of the necessary information to be filed.

Hatchette said the checklist is based on a checklist the Kansas DOI has been using.

Baca made a motion, seconded by Hurtado, to adopt the *NAIC Rate Rule Filing Checklist* (Attachment-XX). The motion passed.

4. Discussed the Plan for the Disclosure Document

Hatchette said the Working Group is still in the process of drafting a document that provides disclosure guidance for premium increases. Currently, the Washington DOI is working on a rule in its state regarding a disclosure for premium increases. It is on the third iteration of its rule. Comments were due last week. Hatchette said the Working Group would continue to monitor Washington's process before finalizing any type of guidance. Bradner said while the Working Group is not looking to do exactly what Washington does, following the process will help the Working Group determine the direction of its disclosure document.

Having no further business, the Working Group adjourned.

NAIC Support Staff Hub/Member Meetings/C CMTE/2022_Fall/Transparency/FNM 2022/Minutes Transparency_1115.docx

2022

NAIC International Insurers Department Plan of Operation

Approved by NAIC Executive Plenary on xx/xx/20

NAIC Contact
Andy Daleo
Senior Manager – P/C Domestic and International Analysis
Financial Regulatory Services

Table of Contents

Background

The NAIC has a long history of supporting state insurance departments' regulatory efforts regarding insurers domiciled outside of the United States (alien) participating in the U.S. nonadmitted market. Initially acting only as a repository for alien insurer financial records, the NAIC has transitioned over the years to its present role as the recognized authority for alien insurers (hereafter, Insurer(s) refers to alien domiciled companies and Lloyd's syndicates) seeking approval to write direct surplus lines business in all U.S. states and territories. The NAIC International Insurers Department (IID) Plan of Operation (Plan) provides details on the standards and processes that Insurers must meet to gain and maintain inclusion on the *Quarterly Listing of Alien Insurers* (Quarterly Listing). The Plan provides a description of the roles NAIC staff and selected state regulators perform in the oversight of alien Insurers writing surplus lines business in the U.S.

Introduction

The Plan describes how the IID operates and how Insurers obtain inclusion on the Quarterly Listing. The IID is composed of experienced financial analysts that review applications and renewal filing documents, prepare written analyses, and provide support to NAIC surplus lines committees and working groups. The IID also includes an Internal Review Committee (Internal Committee) that consists of NAIC directors, managers, attorneys, and analysts. The Internal Committee reviews IID analyses and provides a report of recommendation to the Surplus Lines (C) Working Group (Working Group). The Property and Casualty Insurance (C) Committee is designated the "Appeal Committee" for decisions made by the Working Group, and has no direct involvement in making or approving recommendations regarding alien surplus lines insurers.

The IID functions on behalf of state departments of insurance by maintaining qualifying standards for Insurers domiciled outside of the U.S. seeking eligibility to write direct U.S. surplus lines. Section 524(2)[1] of the 2010 Dodd-Frank Wall Street and Consumer Protection Act recognizes the Quarterly Listing as identifying Insurers for which states may not prohibit brokers from placing or procuring nonadmitted insurance in the U.S. The Quarterly Listing is a public document that is posted on the Publications page of the NAIC website. This list represents Insurers that qualify for listing as outlined in *Section II – Core Requirements and Guidelines for Inclusion on the Quarterly Listing*. Modifications to listed companies are summarized within each Quarterly Listing. The Working Group will make the final determination of all Insurer eligibility.

The Working Group provides oversight to the IID and reports to the Surplus Lines (C) Task Force (Task Force), which functions under the NAIC Property and Casualty Insurance (C) Committee. The Working Group is composed of state regulators with experience in financial analysis and surplus lines regulation. The Working Group provides the IID with guidance and expertise relative to applications and renewals as well as regulatory policy and practices with respect to Insurers listed on or seeking inclusion on the Quarterly Listing.

[1] 15 U.S.C. § 8204(2).

The following table provides a summary of the key NAIC IID workflow:

IID	• Analyzes and monitors Quarterly Listing insurer financial filings; • Maintains Quarterly Listing, IIDfile System, and resources available to the insurers; and • Recommends revisions and enhancements to the *Nonadmitted Insurance Model Act* (#870), IID Plan of Operation, and other surplus lines documentation.
IID Internal Committee	• Consists of NAIC directors, senior managers, attorneys, and analysts; • Reviews application and renewal analyses and provides recommendations to the Surplus Lines (C) Working Group; and • Reviews recommended changes to IID documentation, such as the Plan of Operation.
Surplus Lines (C) Working Group	• Consists of experienced surplus lines regulators; • Maintains and drafts new guidance within the IID Plan of Operation; • Reviews and considers appropriate decisions regarding applications for admittance to the Quarterly Listing; and • Provides a forum for surplus lines-related discussion. Determines final eligibility of insurers on the Quarterly Listing.
Surplus Lines (C) Task Force	• Provides oversight for the work produced within the Surplus Lines (C) Working Group; • Provides a forum for discussion of current and emerging surplus lines-related issues and topics of public policy and determines appropriate regulatory response and action; • Reviews and analyzes quantitative and qualitative data on U.S. domestic and alien surplus lines industry results and trends; • Monitors federal legislation related to the surplus lines market and ensures all interested parties remain apprised; and • Develops or amends relevant NAIC model laws, regulations and/or guidelines.
Property and Casualty Insurance (C) Committee	• Monitors the activities of the Surplus Lines (C) Task Force. Handles any appeals regarding decisions made within the Surplus Lines (C) Working Group

I. Application Process

An Insurer planning to write U.S. surplus lines via admittance to the Quarterly Listing will first register with OPTins. OPTins is an electronic filing and payment system utilized for filing alien surplus lines applications. Through OPTins, the applicant will remit all required filings along with a non-refundable electronic payment in the amount indicated in the Application Filing Memo & Instructions. The application fee covers the cost of processing and evaluating the Insurer's application. The Insurer will find a comprehensive list of required filings within the Application Filing Memo & Instructions document. This document as well as other resources can also be found within the "Documents" tab on the Surplus Lines (C) Working Group webpage.

The Quarterly Listing is published on January 1, April 1, July 1, and October 1. A complete application must be submitted no fewer than 90 days in advance of the publication date in which the Insurer applies to be listed. If the application is submitted fewer than 90 days prior to the intended publication date, it will not be considered until the following quarterly publication release.

The IID will review and evaluate the information submitted by the Insurer seeking admittance to the Quarterly Listing. The IID will evaluate whether the Insurer meets the standards set forth in *Section II - Core Requirements and Guidelines for Inclusion on the Quarterly Listing.* The IID may contact the Insurer for additional information or to seek clarification of any concerns during its review of the application. If all questions and/or concerns (e.g., receipt of required documents and IID requested explanations and supporting documentation) are not resolved within six-months of the application submission date, the application may be rejected and a letter informing the Insurer of the decision will be issued. Refer to *Section III - Process for Reconsideration of an Application Rejection*. Following completion of the review, the IID will meet with the Internal Committee to discuss the evaluation and determine a recommendation. The Internal Committee will present its recommendation to the Working Group for consideration. Following determination by the Working Group, a letter detailing approval or denial will be sent to the Insurer by the IID.

If the Insurer is approved, an approval letter will be sent a minimum of ten calendar days in advance of the listing date and the Insurer will be included in the next Quarterly Listing. The Insurer must establish the required trust fund (See Section II.B, U.S. Trust Fund) prior to being admitted to the Quarterly Listing. Further, the IID must receive the trust balance report detailing the trust fund holdings.

II. Core Requirements and Guidelines for Inclusion on the Quarterly Listing

A. Shareholders' Equity Funds *(See Lloyd's Notation below)*

A minimum shareholders' equity amount of $50.0 million must be maintained on a continuous basis. Shareholders' equity will be evaluated to determine if it is adequate given the Insurer's risk profile. The following key factors may be considered by the IID:

- Operating history and trends;
- Quality and diversification of assets;
- Mix of business and geographic diversification;
- Gross insurance leverage;
- Reinsurance program and quality of reinsurers;
- Gross reserve leverage;
- Cash flow and liquidity;
- Access to capital;
- Dividend and/or upstream funding history; and
- Other factors deemed relevant to the review.

If there is a determination that shareholders' equity is inadequate based on the analysis of the Insurer's

risk profile, an equity requirement above the minimum amount of $50 million may be required. Or, the Insurer may be subject to additional ongoing reporting (e.g., monthly and/or quarterly reporting).

Lloyd's Notation
In lieu of individual shareholders' equity, Lloyd's syndicates are required to report a U.S. trust fund of not less than $100 million available for the benefit of all Lloyd's U.S. surplus lines policyholders. In addition, a review of the Funds at Lloyd's (member assets) is considered.

B. U.S. Trust Fund

The purpose for establishing a trust fund is to provide additional assurance that U.S. policyholders are protected. The trust fund must consist of cash, securities, or an acceptable evergreen letter of credit, or combination at an appropriate level, deposited with a trustee for the benefit of U.S. policyholders. Regarding the composition of the trust fund, credit will be allowed only for (i) securities readily marketable on a regulated U.S. securities exchange, (ii) securities assigned a rating designation on the NAIC Securities Valuation Office List of Investment Securities as defined in the Purposes and Procedures Manual of the NAIC Investment Analysis Office, or (iii) investments of substantially the same character and quality as those which are eligible investments for the capital and statutory reserves of admitted insurers to write like kinds of insurance in the state where the Trust is principally administered.. An acceptable letter of credit is defined as unconditional, irrevocable, evergreen, and issued by a qualified U.S. financial institution.

In establishing its trust fund, the Insurer must maintain such fund at, and enter into an agreement with, a qualified U.S. financial institution. The agreement must contain provisions consistent with the IID model document, Trust Agreement for Alien Excess or Surplus Lines Insurers. For purposes of complying with the trust fund requirement as well as the Lloyd's U.S Situs Excess or Surplus Lines Trust Deed, a qualified U.S. financial institution:

- Is organized or (in the case of a U.S. branch office of a foreign banking organization) licensed under the laws of the U.S. or any state thereof;
- A national bank, state bank, or trust company which is adequately capitalized and qualified to accept securities as determined by the standards adopted by the U.S. banking regulators and regulated by state banking laws or a member of the Federal Reserve system; and
- Has been granted authority to operate with trust powers, if such qualified U.S. financial institution is to act as the fiduciary of the trust fund.

Determining the Trust Fund Level

The trust fund minimum amount will be based on the U.S. gross surplus lines liabilities (i.e., gross reserve for unpaid losses for case and IBNR + gross reserve for unpaid loss adjustment expenses) excluding liabilities arising from aviation, ocean marine, and transportation insurance (NAIC *Nonadmitted Insurance Model Act* (#870), Section 3 – Definitions, Wet Marine and Transportation Insurance, provides an illustrative example), and direct procurement. The calculation of the required trust fund minimum balance is as follows:

- 30% of U.S. gross liabilities up to $200 million, plus
- 25% of U.S. gross liabilities greater than $200 million and up to $500 million, plus
- 20% of U.S. gross liabilities greater than $500 million and up to $1 billion, plus
- 15% of U.S. gross liabilities in excess of $1 billion

In no event will the required trust fund minimum amount, despite the calculation above, be less than $6.5 million or in excess of $250 million.

The trust fund minimum will be verified annually through the review of the U.S. gross liabilities reported within the loss reserve certification no later than June 30 of each year. The opining actuary must be a member of a recognized professional actuarial body. Additionally, per the Trust Agreement for Alien Excess or Surplus Lines Insurers, Section 2.13b, the trustee is required to provide a trust balance report no later than 30 days post quarter end, to the IID. The trust balance report should include sufficient details on the assets held in trust and meet the required minimum balance. Based on the review of the trust balance report, any shortage in the balance must be remedied within 15 days of notification to the Insurer.

In the case of Lloyd's syndicates, for the total of all years of account, the trust fund minimum amount for each syndicate will be based on the syndicate's gross U.S. surplus lines liabilities using the Trust Fund Calculation above.

In extenuating situations (e.g., potential legal action on exposures not yet included within gross loss reserves) there may be a need to require a trust fund balance that is greater than the normal trust fund calculation based on the Insurer's risk profile. The IID will consider the following factors in determining an appropriate trust fund level:

- The types and amount of premiums that the Insurer writes or proposes to write in the U.S.;
- The type and valuation of the assets that compose the trust fund may be adjusted for any questionable balances; and
- The terms and conditions as outlined within the trust agreement.

Process for Reconsideration of a Trust Fund Level

In the event of a determination that a trust fund balance greater than the calculated minimum level is appropriate, a written request for reconsideration may be submitted if the Insurer objects to the determination. To request reconsideration, the following criteria must be met:

- The request must be received by the IID within 30 days of the date on the trust fund adjustment letter;
- The request must be in letter format and signed by an officer of the Insurer; and
- The request must include a comprehensive rationale for disagreement with regard to the determined trust fund level.

The IID will evaluate the appeal with consideration given to the information provided within the request letter and the information will be presented to the Working Group to determine a recommendation. The Working Group's recommendation will then be presented at a regulator-only Appeal Committee meeting for consideration. A representative of the Working Group and the Insurer will be allowed to participate. Following review and a determination by the Appeal Committee, the IID will send a letter to the Insurer detailing approval or denial of the request.

C. Ethics and Integrity

Insurer management will have a proven and demonstrable track record of relevant experience, competence, and integrity. Biographical affidavits will be considered as one source for assessing the presence of these attributes. Following the original required biographical affidavit submission, new or materially modified affidavits (e.g., changes in the suitability of an officer) should be uploaded to OPTins within 30 days of any known amendments, or where applicable within 30 days of approval of any new key director or officer by the Insurer's domestic regulator.

D. U.S. Branch

An Insurer formed with an existing U.S. branch is prohibited from applying for inclusion on the Quarterly

Listing and Insurers currently included on the Quarterly Listing will be de-listed if a U.S. branch office is established.

E. Lloyd's Incidental Syndicates

A Lloyd's incidental syndicate is formed as a portion of the host syndicate. The incidental syndicate is subject to the same capital setting and business plan as the host syndicate. Lloyd's incidental syndicates are permitted to apply for inclusion on the Quarterly Listing under the condition that they establish a separate Lloyd's U.S. Situs Excess or Surplus Lines Trust Deed and commit to annual reporting under its incidental syndicate number.

F. Insurers or Lloyd's Sovereign Government Syndicate Ownership

An insurer or Lloyd's syndicate (member or managing agent) that is partially or wholly owned (directly or indirectly) or controlled (financially or otherwise) by a sovereign government that applies for inclusion on the Quarterly Listing, must sign and attest to various conditions as outlined within a set of required supplemental filings. The sovereign ownership may not encompass a U.S. sanctioned country per the U.S. Department of Treasury's Office of Foreign Assets Control.

III. Process for Reconsideration of an Application Rejection

In the event of an application rejection, a written request for reconsideration may be submitted if the Insurer wishes to contest the determination. To request reconsideration, all the following criteria must be met:

- The request must be received by the IID within 30 days of the date on the rejection letter;
- The request must be in letter format and signed by an officer of the Insurer; and
- Each of the rejection letter issues must be addressed with detailed explanations and supporting documentation.

The IID will re-evaluate the application with consideration given to the information provided by the Insurer and all information will be presented to the Working Group to determine a recommendation. The Working Group's recommendation will be presented at a regulator-only Appeal Committee meeting for consideration. A representative of the Working Group and the applicant will be allowed to participate. Following review and a determination by the Appeal Committee, the IID will send a letter detailing approval or denial of the request.

If an Insurer does not submit a reconsideration letter within 30 days of the date on the rejection letter, any request for reconsideration is considered waived and the Insurer will be required to submit a new application along with the application fee and all required supporting documentation.

IV. Ongoing Quarterly Listing Eligibility

Insurers included on the Quarterly Listing are subject to ongoing review, which includes annual and interim compliance and qualitative and quantitative analysis.

A. Core Areas of Insurer Compliance

Annual Renewal Filing

All insurers/syndicates listed within the Quarterly Listing on June 30 of the renewal year are required to remit an annual fee and file an annual renewal package and must upload all required renewal filing documents to OPTins by June 30. A comprehensive list of required filings can be found within the Renewal Filing Memo. Filings submitted subsequent to June 30 will be subject to late fees as defined within the Renewal Filing Memo . If an Insurer fails to submit its annual renewal filing by July 31, it may be subject

to de-listing.

Notification of Change in Control and Re-Application

Control is presumed to exist if any person, directly or indirectly, owns, controls, holds with the power to vote, or holds proxies representing 10% or more of the voting securities of any other person. In the event of a change of control and/or merger, the Insurer must provide notice 30 days prior to the effective date of the transaction. The Insurer must reapply within 45 days following the effective date of the change of control and/or merger of the Insurer to maintain its listing. Failure to provide timely notice and/or re-application may result in de-listing.

Notification of Decline in Equity *(Does not apply to Lloyd's Syndicates)*

If the Quarterly Listed Insurer's equity has declined or is expected to decline by 10% or more compared to the most recent year-end or dropped below the minimum standard described in *Section II.A - Shareholders' Equity Funds*, it must notify the IID immediately with a detailed explanation of the decline and a plan describing the resolution. Failure to provide timely notification may result in delisting as described in *Section V – De-Listing*. If an Insurer is unable to increase equity to the required minimum level within 15 business days of notification, it may be subject to de-listing.

Trust Fund Monitoring

The Quarterly Listed Insurer is required to monitor the trust fund balance and any impact of market fluctuations on the balance to ensure that it meets the minimum balance required. The IID performs a quarterly review of the market value of each Insurer's U.S. trust fund based on the filing of the trust fund balance report from the trustee to ensure that it continues to meet the required minimum balance.

B. IID Annual and Ongoing Analysis of Quarterly Listed Insurers

The IID analyzes annual renewal and interim Insurer documentation and may request additional information as a result of that analysis. If an Insurer fails to file all additional requested information within the specified timeframe, it may be subject to de-listing. Upon completion of the overall analysis process, the Insurer will be referred to the Working Group for renewal or de-listing. Following review and a determination by the Working Group, a letter will be sent to the Insurer.

C. Examination of Insurer

The IID may recommend that an Insurer submit to a special examination of its affairs to verify continuing compliance. If the Working Group approves the recommendation, the Insurer will be required to submit to a special examination and pay all expenses or it will be de-listed.

V. De-listing

When the IID determines an Insurer is not in compliance with the Plan and/or the trust fund requirements or poses solvency concerns, the IID may present an analysis of the Insurer to the Internal Committee to determine a recommendation for consideration by the Working Group. Upon determination of non-compliance and/or solvency concerns by the Working Group, the Insurer will be de-listed and notified via letter.

VI. Process for Reconsideration of De-listing

In the event of de-listing, a written request for reconsideration may be submitted if the Insurer elects to challenge the determination. To request reconsideration, all the following criteria must be met:

- The request must be received by the IID within 30 days of the date on the de-listing letter;
- The request must be in letter format and signed by an officer of the Insurer; and
- Each of the de-listing letter issues must be addressed with detailed explanations and supporting

documentation.

The IID will review the letter response and will present its evaluation to the Working Group for its recommendation. The Working Group's recommendation will be presented at a regulator-only Appeal Committee meeting for consideration. A representative of the Working Group and the de-listed Insurer will be allowed to present. Following review and a determination by the Appeal Committee, the IID will send a letter detailing approval or denial of the request.

If an Insurer does not submit a reconsideration letter within 30 days of the date on the de-listing letter, any request for reconsideration is considered waived and the Insurer will be required to submit a new application along with the application fee and all required supporting documentation.

VII. Communication

All communication and information, including financial statements, audit reports, trust fund documents, and other supporting documentation must be submitted in English and uploaded to OPTins.

VIII. Voluntary Termination from the Quarterly Listing

An Insurer that wishes to voluntarily terminate from the Quarterly Listing may do so by sending a letter to the IID that requests termination along with the effective date of the termination. Following termination from the Quarterly Listing, the Insurer must continue to comply with the requirements outlined within the Trust Agreement for Alien Excess or Surplus Lines Insurers.

IX. Confidentiality

The IID will treat as confidential any non-public information submitted by an Insurer and for which confidential treatment is clearly requested. The IID is not aware of any state or federal statutes that provide additional protection for information submitted to it. By submitting information to the IID, the Insurer acknowledges that the IID will share such information with state insurance department regulators as well as NAIC staff who participate in the review of applications and renewals. Additionally, in the event the IID or NAIC is served with a subpoena, motion, order, or other legal process requiring the production of such information or testimony related thereto, the NAIC will make best efforts to inform the Insurer of such third-party request in order to afford the Insurer an opportunity to take whatever action it deems appropriate to protect the confidentiality of its information. The Insurer acknowledges the NAIC may comply with the request and any order compelling compliance with such request.

X. Amendment to the Plan

The Working Group will consider proposals submitted to the IID for modifications to the Plan. All proposals will be considered during open conference calls or meetings of the Working Group throughout the year. A proposal must be complete and concise and include relevant supporting documentation. Proposals exposed and adopted by the Working Group would become effective following adoption by the Surplus Lines (C) Task Force and Casualty Insurance (C) Committee.

NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

REGULATORY RESOURCES FOR CONSUMERS ON PERSONAL LINES PRICING AND UNDERWRITING

AUTO SECTION

How Do Insurers Determine Your Auto Insurance Premium?

The way auto insurers determine how much you pay for insurance is constantly changing. The process starts with the information you provided on the application. The two parts of the process are *underwriting* and *rating*.

How Do Insurers Underwrite?

The first part of the process is underwriting. Insurance companies underwrite to:

- know the risk of insuring an applicant.
- group the applicant with others who have similar risks.
- decide if they will insure the applicant.

To underwrite an auto insurance policy, insurance companies want information about certain factors that might affect how likely you are to have a loss that insurance covers. Some of these factors are beyond your control, such as age and gender. You have control over other factors an insurance company considers, including where your car is, how you use it, the make and model of your car, and your credit-based insurance score.

An underwriter uses information from your application as well as from other sources.

Insurance companies depend on the information in your policy application. The questions you're asked when you apply for insurance help the company know how likely you are to have a loss that insurance covers.

Insurance companies also get information from other sources. For example, some auto insurers get information about your credit history from credit bureaus. They also get information about your driving record from third parties, such as the Division of Motor Vehicles, and your history of filing auto insurance claims from insurance claims databases.

How Do Insurers Rate Risk?

After underwriting, the next step is to rate your risk. The company sets a rate for each group of applicants who are similar risks.

A rating factor is a specific characteristic of a potential policyholder that an insurer uses to price auto insurance premiums. All else being equal, the less risky your rating factors are, the less you'll pay for insurance.

For more information about the rating factors many companies use, see *Factors Used to Rate Auto Insurance.*

How Do Insurers Determine Auto Insurance Premiums?

Insurance companies use information about you, your vehicle, and your insurance coverage to decide whether to insure you and how much you'll pay for auto insurance. They'll get this information from you or from organizations. All this information is used to rate you as an insurance risk and affects how much you'll pay for insurance.

Some factors relate to the driver(s) and some to the type of vehicle you want to insure. Others are based on the amount and types of coverage you buy. There are discounts that could reduce the premium.

Insurance companies use various methods to rate your risk. Different insurance companies often charge you different amounts for the same or similar coverage.

Also, some states limit the factors an insurance company can use. States also have different requirements about how much insurance you buy, which affects your cost.

General Information

Age, years of driving experience, gender, and marital status are factors insurance companies may use to determine how much you'll pay. The insurance company gets information about your driving record and accident history from a third party (such as the Division of Motor Vehicles). In some states, insurance companies can't consider certain factors, such as your gender or age.

If other drivers live with you, your insurance company will also look at their information to decide how much you'll pay.

How You Use the Vehicle

Your insurance premium may vary based on whether you use your vehicle only for pleasure or drive it back and forth to work. Driving for pleasure means that you drive only occasionally. If you drive only for pleasure, you might pay less.

Most personal auto insurance policies won't pay for accidents if you use your car for business activities your policy doesn't cover, such as transporting people or delivering goods.

Gender and Age

Some research shows that males have more accidents than females and younger drivers have more accidents than older and more experienced drivers. That's why young men are often charged more for insurance than young women. Inexperienced drivers may pay more regardless of age. Some states don't let insurance companies use gender as a factor when they rate insurance.

Insurance companies look at accident statistics for all age groups. What you pay for insurance may change as you get older.

Some states require insurance companies to give a discount to any primary driver who is older than 55 if they complete an approved accident prevention or defensive driving course the Division of Motor Vehicles approves.

Location

It's important to tell your insurance company where you keep (or "garage") your vehicle. You may pay more or less based on where you live or keep your car. The insurance company may look at the weather and number of accidents and thefts in the area you live in.

Other Risk Factors

Some insurance companies consider your job and education to decide how much to charge you. That's why an insurance company may ask what you do for a living and how much school you've completed.

In some states, married drivers might pay less for auto insurance. And homeowners might pay less than renters.

Coverage History

When you apply for insurance, you may be asked about your previous insurance coverage. Most insurance companies charge you more if you've gone without insurance before.

You might need to give the name of your previous insurance companies and the dates you were insured. Insurance companies want to know if a company ever cancelled your insurance policy because you didn't pay. Your new insurance company also may ask about your traffic violations and claims history.

Some states limit insurance companies' use of prior insurance coverage as a factor when rating a policy.

Driving Habits and History

Insurance companies look at your driving record and habits and those of anyone else on your policy or living with you. Your new insurance company might ask if you've had traffic tickets or been in an accident. Typically, your driving record for the past three to five years impacts what you pay. Drivers with a bad driving record have a greater chance of being in an accident and might pay more for their insurance.

Drive safely**.** Nothing affects your auto insurance premium more than how you drive. Insurance companies consider drivers who have caused car accidents to be a higher risk and might charge them more for insurance.

Although the company will get your driving record from a third party when you apply for a policy, it's important to be honest and truthful when you give the insurer information. Being honest will mean it's more likely that your quote will match what you'll actually pay for your insurance.

If your driving record has improved over the last few years, shop around to see if you can pay less with another insurance company.

Vehicle Owners and Operators in Your Household

Some states may let you exclude a driver from your insurance policy. Others will not. An excluded driver is one that you ask your insurance company not to cover, usually because having them on your policy will increase what you'll pay. Talk with your agent or insurance company to find out if this is an option for you. Be aware that you have no insurance coverage for damage caused by an excluded driver driving your vehicle.

Telematics

Telematics is in-car tracking technology that insurance companies use to monitor your car and your driving behaviors. Many insurance companies use telematics to learn how fast you drive, your braking behaviors, and the distance you drive. Telematics can work through a mobile app or a Bluetooth device that communicates with your car. The insurance company may use your driving behaviors and habits to determine how much to charge you. Telematics can also work directly with your car to record how it performs and how it's maintained.

Usage-Based Premiums

Some insurance companies may use information about how you drive or how much you drive to decide how much you'll pay. Pay As You Drive and Pay-per-Mile policies are two examples of using telematics to determine premium.

Pay As You Drive. Pay As You Drive uses information from telematics about your driving habits to determine what you'll pay. Telematics can track braking and speeding, how often you drive, the time of day or night you drive, where you drive, and whether you use a cell phone while driving. You may be able to log on to the insurance company's website to see how your driving habits affect how much you pay.

Pay-per-Mile. Insurance companies base what you pay for insurance on an estimate of how much you drive. Some insurance companies charge a base rate and then add a "per-mile" fee to determine your premium. Insurance companies use a device installed in your car to track the number of miles you drive. If you work from home, use mass transit, or don't drive often this type of policy could save you money. Some companies let you have this type of policy without a tracking device but require you to send a photo of your odometer reading each month.

Credit-Based Insurance Score

Insurance companies may use information about your credit history when they rate your policy. They use credit-based insurance scores which, like all credit-based scores, predict an outcome. Credit-based insurance scores predict the amount of a claim, the likelihood of filing a claim, or the likelihood a policyholder will stay with an insurer instead of shopping around.

Credit-based insurance scores, like other credit scores, are based on your credit payment history, your current debt, how much new credit you've applied for, and what types of credit you have. Some insurance companies combine credit information with traditional insurance information, such as claims history, to create hybrid credit-based insurance scores. In either case, a higher score indicates you'll likely pay less for insurance.

Some states restrict or even ban the use of credit-based insurance scoring. Each insurance company uses its own method to determine your score.

Before you apply for insurance, it's a good idea to get a copy of your credit report and make sure the information in it is correct. Bankruptcies, judgments, liens, late payments, and credit inquiries

may mean a lower credit-based insurance score. You can find information about how to get your credit report at https://www.usa.gov/credit-reports.

It's important to talk to your agent or insurance company if you've had extraordinary life circumstances, such as divorce, death of a family member, job loss, military deployment, or serious illness, that might affect your credit.

If you have a "freeze" on your credit to help prevent identity theft, an insurance company won't be able to see your credit report and you may pay more for your insurance. You can temporarily "unfreeze" your credit when you apply for insurance.

Vehicle Specific Factors

The type of vehicle you drive affects the cost of your auto insurance. You'll pay more for cars that cost more to repair or replace or that are often stolen. For example, you'll pay more to insure higher-value cars and newer cars. Some examples are large SUVs or trucks, high-performance sports cars, and vehicles with special features such as all-wheel drive transmissions and hybrid engines.

Auto Insurance Discounts

You may pay less for car insurance if you qualify for a discount. To make sure you get the discounts you qualify for, be sure to ask your agent what discounts the insurance company offers and how much you could save. When you compare the cost of insurance between different companies, compare the total cost after any discounts.

Here are some important things to consider:

- Discounts vary depending on the insurance company and the state where you live;
- Ask about discounts at every policy renewal; and
- If you get quotes from different insurance companies, be sure to ask each about discounts.

General Discounts

Most insurance companies offer various types of discounts. Insurance companies might offer discounts if you use automated payments, pay your annual premium in one payment, or sign up for electronic billing.

Ask your agent or insurance company about discounts you can get.

Continuous Coverage

Insurers may offer discounts if you keep a car continually insured and haven't had a gap in coverage.

Group Memberships

Some insurance companies may offer a discount if you're a member of an organization, such as an alumni or professional association, a union, or other organization.

Loyalty

Some insurance companies may offer discounts for:

- Renewing your policy for a certain number of years;
- Children who use the same company their parents use even after they move out.

Multiple Vehicles

Most insurance companies offer a discount if you insure more than one car with them.

Multiple Policies

Insurance companies may offer discounts if you have your auto and homeowners insurance with the same insurance company. This often is called bundling or home/auto packages.

Driver-Specific Discounts

Insurance companies may look at information about each driver on the policy when they choose which discounts to give you.

Claim Free

If you haven't filed any claims, insurance companies may offer a discount.

Defensive Driver/Driver's Education

Many insurance companies offer discounts if you've completed a defensive driving or driver's education course. Discounts for driver education courses are targeted primarily at younger and older drivers.

Good Student

Some insurance companies offer discounts to students who get good grades.

Mileage

Driving fewer miles reduces the chance you'll be in an accident. Many insurance companies know this and offer discounts if you don't drive much. Some companies offer discounts to drivers who use carpools.

Military

Some insurance companies offer a discount to active, retired, reserve, and honorably discharged members of the military (and often their family members). This discount isn't available in all states. Ask your insurance company if this discount is available to you.

They might also have a discount if you keep your car on base while you're deployed.

Non-smoker/Non-drinker

Because smoking and drinking can increase the chances that you'll be in an accident, some insurance companies offer non-smoker and non-drinker discounts.

Seat Belt Use

Using your seat belt may get you a discount.

Vehicle Discounts

Safety Devices.

Auto safety devices can reduce how much you'll pay because they help prevent accidents, vehicle damage, and injuries. This equipment includes:

- Adaptive Cruise Control
- Adaptive Headlights
- Air Bags
- Anti-Lock Brakes
- Automatic Braking
- Automatic Seat Belts
- Blind Spot Warning
- Daytime Running Lights
- Electronic Stability Control
- Forward Collision Warning
- Lane Departure Warning
- Passive Restraint

Anti-Theft Discount

You'll also pay less if you have certain devices that reduce theft or vandalism. Some examples include:

- Active Disabling Device
- Audible Alarm
- Vehicle Recovery
- Vehicle Identification Number Etching

There are a lot of things to consider if you're trying to lower your auto insurance premiums. You'll find some great questions to ask your agent in A Shopping Tool for Auto Insurance.

HOMEOWNERS SECTION

How Do Insurers Determine Your Homeowners Insurance Premium?

Insurance companies use information about you, your home, and your insurance coverage to decide whether to insure your home and how much you'll pay for homeowners insurance. They'll get this information from you and from organizations. All this information is linked to "factors" that affect how much you'll pay for insurance, or how the insurance company "rates" your insurance risk. Many of these factors are described below. Different insurance companies determine their risk of insuring you in different ways and charge different amounts for the same or similar coverage.

There may be discounts that reduce your premium.

Factors Relating to You

Claims History and Loss History Reports

If you've filed homeowners insurance claims, or if a previous homeowner has filed claims for your home, you may pay more for insurance. Your history of filing claims will affect how much you pay for homeowners insurance, even if claim payments were low. Insurance companies use third-party data, including the Comprehensive Loss and Underwriting Exchange (CLUE) database to see, the number and types of claims you've filed in the last five to seven years. Different insurance companies treat claims information differently, so it's always a good idea to shop around.

Credit-Based Insurance Score

Insurance companies may use information about your credit history when they rate your policy. They use credit-based insurance scores which, like all credit-based scores, predict an outcome. Credit-based insurance scores predict the amount of a claim, the likelihood of filing a claim, or the likelihood a policyholder will stay with an insurer instead of shopping around.

Credit-based insurance scores, like other credit scores, are based on your credit payment history, your current debt, how much new credit you've applied for, and what types of credit you have. Some insurance companies combine credit information with traditional insurance information, such as claims history, to create hybrid credit-based insurance scores. In either case, a higher score indicates you'll likely pay less for insurance.

Some states restrict or even ban the use of credit-based insurance scoring. Each insurance company uses its own method to determine your score.

Before you apply for insurance, it's a good idea to get a copy of your credit report and make sure the information in it is correct. Bankruptcies, judgments, liens, late payments, and credit inquiries may mean a lower credit-based insurance score. You can find information about how to get your credit report at https://www.usa.gov/credit-reports.

It's important to talk to your agent or insurance company if you've had extraordinary life circumstances, such as divorce, death of a family member, job loss, military deployment, or serious illness, that might affect your credit.

If you have a “freeze” on your credit to help prevent identity theft, an insurance company won't be able to see your credit report and you may pay more for your insurance. You can temporarily “unfreeze” your credit when you apply for insurance.

Pets

Some insurance companies consider some pets or breeds of pets aggressive. An aggressive pet increases the risk you may be legally responsible if someone makes a claim against you for a pet-related injury. Some insurance companies have their own list of pet breeds they won’t cover, or that could increase your premium. Check with your agent or company if you own a pet.

Smoking

Smoking increases the risk of a fire in your home. Insurance companies usually charge more if someone in your home smokes.

Factors Relating to Your Policy

Coverage History

Insurance companies look at your insurance history to see if you’ve had continuous coverage on your home. If you canceled a policy before you bought a new one (called a lapse) you may pay a higher premium on a new policy. You also could have had a lapse in coverage if:

- you didn’t pay your bill on or before the due date or within the grace period; or
- you let your current policy end before you bought a new policy.

If you don’t pay your bill on time, your insurance company could:

- cancel your policy and not cover a loss to your home; or
- refuse to continue your policy, which may leave you without homeowners insurance.

If you let your insurance coverage lapse and you have a mortgage, your lender may buy a policy and charge you for it. Your premium for a lender-placed policy will probably be higher and might not provide as much coverage for you.

The Homeowners Insurance Coverage You Choose

Your insurance agent or company will help you decide what types and amounts of coverage you need. Your policy will specify the coverage for your home and personal belongings. It also may include *liability* coverage, which can pay if someone gets hurt on your property.

Your agent might suggest that you buy enough coverage to rebuild your house and replace your personal belongings. That’s called replacement cost coverage. Another type of coverage is based on actual cash value.

- *Actual cash value* coverage pays the fair market value of property at the time of the loss. This value usually is the cost to repair or replace the property, less *depreciation*. (Depreciation is a deduction for the age of the property and wear and tear.) Actual cash value coverage pays you for your loss, but often doesn’t pay enough to fully replace or repair the damage to your property.

Some policies provide only actual cash value coverage for roofs over a certain age or that are in poor condition. Be sure to find out what your policy covers.

- *Replacement cost* coverage pays the cost to repair or replace your damaged or destroyed property *without* a deduction for depreciation. Most policies cover your house for replacement cost. If you don't have replacement cost coverage, your insurance company might only pay actual cash value. The cost of building supplies might be higher now than when you bought your policy. Review your policy with your agent at renewal to be sure you have the best coverage you can afford.

Replacement cost and *market value* aren't the same. The market value of a home includes the price of your land and depends on the real estate market. For more information about these and other coverages, see the NAIC's Homeowners Shopping Tool.

The Deductible You Choose

A deductible is the money you pay out of pocket on a claim before the policy pays. The deductible applies to coverage for your home and personal property. You pay a deductible for each claim. Higher deductibles mean lower policy premiums. The premium for a policy with a $1,000 deductible will be lower than the premium for the same policy with a $500 deductible. In some areas, there are also catastrophe deductibles, which are either a dollar amount or a percentage of the value of the property.

A higher deductible can be a good way to save money on your premium. But be sure you can afford the deductible if you have a loss.

The Risks Your Policy Covers

Peril is an insurance term for a specific risk or reason for a loss. An all-perils policy insures your property against all perils, except those the policy names as not covered. Flood and earthquake are often not covered.

A *named perils* policy covers your home and personal property only against a specific list of reasons for a loss. Your policy will list the types of losses that it covers. Common examples of covered losses include fire, theft, and vandalism. Named perils policies cover less than all perils policies and are less expensive.

Talk with your insurance company's representative or agent if you want coverage for floods or earthquakes. A homeowners policy doesn't cover either, so you'll need to buy extra coverage.

Coverage You Add

To cover the full value of your possessions, you may need to add coverage to your homeowners policy. These additions may be called endorsements or riders and will increase your premium.

You may want to add coverage for:

- Antiques
- Computer Equipment
- Fine Art
- Firearms
- Jewelry

Your Home's characteristics

Your Home's Age and Condition

If you have an older home, your policy might be more expensive. Older homes might have outdated electrical and plumbing systems which might increase the risk of a loss. Older "historic" homes may require building materials that are hard to find. If you have an older home, you may need a special policy and probably will pay a higher premium.

Improvements to your home, such as replacing your roof; upgrading electrical, heating, or plumbing; or installing a security system, may lower your premium. You should tell your insurance agent or company about any upgrades you make to your home.

The Size of Your Home

The size of your home affects what you pay for insurance. Larger homes normally cost more to insure because they cost more to rebuild or repair. Your agent or company might ask about your basement and what percent is finished.

Your Home's Construction and Exterior Features

The material your home is made of affects how your home holds up against a natural disaster and perils like wind and fire. Homes made with concrete or solid brick exteriors are less likely to catch fire and are more stable during a storm.

Your home's roof is its main protection against hail, wind, fire, and other perils. The age, condition, material, and shape of your roof are all factors that determine your premium. Homes with newer roofs made of materials that are stable and fire-resistant usually cost less to insure.

Installing fire-resistant siding made of metal, fiber-cement shingles and clapboards, or masonry can help you pay less for your homeowners insurance, especially in fire-prone areas.

Custom Features of the Home

If you have a wood-burning or pellet stove, you may pay more for insurance. If a licensed contractor installed your stove and it meets code requirements, your premium may be lower.

If your home is made from custom, designer, or luxury grade materials, such as high-end marble, luxury grade cabinets, and expensive lighting, or requires professional craftmanship to rebuild, you may pay more for your insurance.

Where You Live

Your home's location affects what you pay for homeowners insurance. If your area gets a lot of hurricanes, tornadoes, or wildfires, your insurance will cost more.

Insurance companies consider how far you live from a fire station when they calculate your premium. Living in a city or suburban area, by a body of water, or in an area with a lot of crime will increase your premium.

Attractive Nuisances (For Example, A Swimming Pool) on Your Property

An *attractive nuisance* is a dangerous condition that may attract children to a homeowner's property. Examples are swimming pools, trampolines, and playground equipment. If you have an attractive nuisance you might want to increase your homeowners policy's liability insurance. You may be liable if someone is hurt using an attractive nuisance on your property (even if they don't have your permission and aren't using the item safely).

Your insurance company may require you to install an enclosure or fence around an attractive nuisance. Your policy might not cover items like diving boards or slides. Having an attractive nuisance on your property likely will increase your premium.

Homeowners Insurance Discounts

Most insurance companies offer various types of discounts. You will pay less for homeowners insurance if you qualify for a discount. Ask your agent or the insurance company what discounts the company offers and how much you could save. When you compare the costs of different insurance policies, compare the total cost after discounts.

Here are some important things to know:

- Discounts vary depending on the insurance company and the state where you live. Some insurance companies may not offer discounts.
- Ask about discounts every year when you renew your policy.
- If you get quotes from different insurance companies, be sure to ask each about discounts you might qualify for.

General Discounts

Most insurance companies offer various types of discounts. The discounts may be tied to how you pay for your policy, your personal characteristics, and/or your home.

Advance Purchase

You might get an Advance Purchase Discount if you buy a policy before the renewal date. Insurance companies might give discounts if you give them seven to 10 days' notice before you switch to their company.

Purchasing and Payment

Some insurance companies offer discounts if you pay for the full year of insurance in one payment, sign up for electronic billing, or are a new customer.

Multiple Policies

Insurance companies might offer a discount if you have your auto and homeowners policies with the same insurance company. This is known as bundling.

Discounts Specific to You and Your Policy

Discounts vary by insurance company. Some are not available in all states.

Claim Free

Insurance companies might offer a discount if you haven't filed any claims or haven't filed a claim for a certain number of years. Ask your insurance company if they offer this discount.

Prior Insurance

The prior insurance discount is for new policyholders. It's based on the number of years in a row that you had a policy with your previous insurance company.

Being Married or Widowed

Your insurance company may offer a discount if you're married or widowed. Ask your agent or insurance company about this discount.

Retirement Discount

Some insurance companies offer a discount to retired people. They tend to spend more time at home and will know about fires, water leaks, or burglaries at their homes.

Non-smoker Discount

Smoking at home may increase your fire risk, so some insurance companies offer a non-smoker discount.

Group Memberships

Military

Some insurance companies offer a discount to active, retired, reserve, and honorably discharged members of the military (and often their family members). Ask your agent or insurance company if they offer this discount.

Associations

Some insurance companies offer a discount if you're a member of an organization, such as an alumni or professional association or a union.

Occupation

Some insurance companies offer a discount to people with certain jobs, such as first responders, teachers, and nurses.

Loyalty (5-10 years or more)

Some insurance companies offer discounts if you:

- Renew your policy for a certain number of years
- No longer live with your parents, but buy a policy from the same insurance company

Replacement Cost

If you insure your home for 100% of the cost to replace it, you might be eligible for a discount.

Discounts Relating to Your Home

Age of Home

If your home is less than 10 years old, insurance companies may offer you a discount.

Construction Type

If your home is built from brick, stucco, metal, or concrete, you might be eligible for a discount.

New or Renovated Home Discount

If you bought a new or renovated home with upgraded electrical or plumbing, you may be eligible for a discount.

Roof Age Discount

Some insurance companies give a discount based on the age of your roof. If your home has a newer roof, or an impact-resistant roof, you might get a discount.

Accredited Builder Discount

If your home's builder is on the insurance company's "accredited builder" list, you might be eligible for a discount. This discount will probably only last for five years after your home is built.

Homeowners Association (HOA)

Some insurance companies offer a discount if you live in a neighborhood with an HOA.

Living in a Gated Community

Living in a gated community (with or without security patrols) offers an extra level of security and might make you eligible for a discount.

Fire and Safety Protection

Your insurance company may offer a discount if your home has qualifying fire or theft protection. Some of these include:

- Smoke Detectors
- Sprinkler System
- Fire Alarm
- Security Alarm
- Backup Generator
- Smart Technology to Alert You to Fires, Water Leaks, or Burglaries
- Deadbolt Locks

Water Leak Detection

You might get a discount if you have a water leak detector or prevention system. Discounts depend on how advanced the detection system is, so ask your agent or insurance company.

Mitigation Discounts

If you live in an area that has severe weather, your insurance company might give you a discount if you have storm shutters, reinforced doors, shatterproof glass, or other protections.

If you live in an area that is at risk for wildfires, you may get a discount if you take steps to mitigate damage. This includes using concrete or other fire-resistant materials for your home's structure and creating an area around your home that reduces fire risks.

Completed	N/A	EXAMPLE RATE/RULE FILING CHECKLIST	
☐	☐	1.	Please complete all check boxes on this form or your filing may be returned "Rejected," and a resubmission may be necessary.
☐	☐	2.	All rate information must be completed on the rate/rule tab without capping.
☐	☐	3.	All proposed rate/rule manual pages must be submitted under the rate/rule schedule tab for approval.
☐	☐	4.	Complete rate/rule manual with all proposed changes must be submitted under supporting documents tab as this will be marked informational only. A complete manual should consist of all corresponding rules for your optional forms, all rules corresponding to your rating factors, all rating factors, territory definitions and factors, and all proposed changes to rules and rates.
☐	☐	5.	Provide a histogram on an uncapped basis. If the filing contains more than one company, please provide a separate histogram for each company.
☐	☐	6.	Provide the characteristics of the insured(s) receiving the maximum rate increase. If the filing contains more than one company, please provide a separate histogram for each company.
☐	☐	7.	Provide the average dollar change, the maximum dollar change, and minimum dollar change on an uncapped basis. If the filing contains more than one company, please provide a separate histogram for each company.
☐	☐	8.	Please provide our department with a talking points sheet that will assist our consumer assistance division should we receive consumer complaints regarding the rate increase. This submission should provide detailed information that we can share with policyholders that will explain what it is causing this rate increase.
☐	☐	9.	Please provide us with the breakdown of the permissible loss ratio by coverage including: a. Taxes, licenses, and fees b. Total production expense c. Underwriting profit d. Any other fees that comprise the permissible loss ratio e. Permissible loss ratio
☐	☐	10.	Provide all support and justification exhibits for rate change including how you derived your overall indication, all support for proposed factor changes, etc.
☐	☐	11.	This checklist item is only required for Personal Auto rate filings: Provide the percentage breakdown of the rate impact. If the filing contains more than one company, please provide a separate histogram for each company.
☐	☐	12.	Rates developed using generalized linear modeling or other predictive modeling techniques must include a detailed narrative of the modeling process. This should include a description of the modeling data, variable selection process, data dictionary, model testing & validation, and any judgements made throughout the process.
☐	☐	13.	If a GLM (Generalized Linear Model) is currently in use, the company must include the SERFF tracking number of the original GLM filing.

Draft: 11/21/22
Adopted by the Executive (EX) Committee and Plenary, TBD
Adopted by the Property and Casualty Insurance (C) Committee, TBD

2023 Proposed Charges

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

The mission of the Property and Casualty Insurance (C) Committee is to: 1) monitor and respond to problems associated with the products, delivery, and cost in the property/casualty (P/C) insurance market and the surplus lines market as they operate with respect to individual persons and businesses; 2) monitor and respond to problems associated with financial reporting matters for P/C insurers that are of interest to regulatory actuaries and analysts; and 3) monitor and respond to problems associated with the financial aspects of the surplus lines market.

Ongoing Support of NAIC Programs, Products or Services

1. The **Property and Casualty Insurance (C) Committee** will:
   A. Discuss issues arising and make recommendations with respect to advisory organization and insurer filings for personal and commercial lines, as needed. Report yearly.
   B. Monitor the activities of the Casualty Actuarial and Statistical (C) Task Force.
   C. Monitor the activities of the Surplus Lines (C) Task Force.
   D. Monitor the activities of the Title Insurance (C) Task Force.
   E. Monitor the activities of the Workers' Compensation (C) Task Force.
   F. Provide an impartial forum for considering appeals of adverse decisions involving alien insurers delisted or rejected for listing to the *Quarterly Listing of Alien Insurers*. Appeal procedures are described in the International Insurers Department (IID) Plan of Operation.
   G. Monitor and review developments in case law related to risk retention groups (RRGs). If warranted, make appropriate recommendations to the Risk Retention Group (E) Task Force for changes to the *Risk Retention and Purchasing Group Handbook.*
   H. Monitor the activities of the Federal Crop Insurance Corporation (FCIC) that affect state insurance regulators:
      i. Serve as a forum for discussing issues related to the interaction of federal crop insurance programs with state insurance regulation.
      ii. Review law changes and court decisions, and, if warranted, make appropriate changes to the *Federal Crop Insurance Program Handbook: A Guide for Insurance Regulators.*
      iii. Monitor the regulatory information exchanges between the FCIC and state insurance regulators, as well as the FCIC and the NAIC, and make recommendations for improvements or revisions, as needed.
   I. Report on the cyber insurance market, including data reported within the Cybersecurity Insurance and Identity Theft Coverage Supplement.
   J. Monitor regulatory issues that arise with the development of autonomous vehicles. Study and, if necessary, develop recommendations for changes needed to the state-based insurance regulatory framework.
   K. Provide a forum for discussing issues related to parametric insurance, and consider the development of a white paper or regulatory guidance.
   L. Study and report on the availability and affordability of liability and property coverage for non-profit organizations.
   M. Assist state insurance regulators in better assessing their markets and insurer underwriting practices by developing property market data intelligence so regulators can better understand how markets are

performing in their states, and identify potential new coverage gaps, including changes in deductibles and coverage types, and affordability and availability issues.

N. Provide a forum for discussing issues related to the use of telematics in insurance, and consider the development of a white paper or regulatory guidance.

2. The **Cannabis Insurance (C) Working Group** will:
   A. Assess and periodically report on the status of federal legislation that would protect financial institutions from liability associated with providing services to cannabis businesses operating legally under state law.
   B. Encourage admitted insurers to ensure coverage adequacy in states where cannabis, including hemp, is legal.
   C. Provide insurance resources to stakeholders, and keep up with new products and innovative ideas that may shape insurance in this space.
   D. Explore potential sources of constraint to coverage limits and availability of cannabis insurance products within the admitted and non-admitted market. Explore the use of cannabis on P/C insurance lines of business. Use information gained to develop an appendix to the *Understanding the Market for Cannabis Insurance 2.0* white paper.

3. The **Catastrophe Insurance (C) Working Group** will:
   A. Monitor and recommend measures to improve the availability and affordability of insurance and reinsurance related to catastrophe perils for personal and commercial lines.
   B. Evaluate potential state, regional, and national programs to increase capacity for insurance and reinsurance related to catastrophe perils, including mitigation efforts being used in states and investigating loss trends in homeowners markets, with the goal to provide rate stability in the marketplace and protect consumers.
   C. Monitor and assess proposals that address disaster insurance issues at the federal and state levels. Assess concentration-of-risk issues and whether a regulatory solution is needed.
   D. Provide a forum for discussing issues and recommending solutions related to insuring for catastrophe risk, including terrorism, war, and natural disasters.
   E. Draft a Catastrophe Modeling Primer that addresses the basic concepts of catastrophe modeling. .
   F. Investigate and recommend ways the NAIC can assist states in responding to disasters by continuing to build the NAIC's Catastrophe Resource Center for state insurance regulators to better prepare for disasters.
   G. Continue to monitor the growth of the private flood insurance market and assess the actions taken by individual states to facilitate growth. Update the Considerations for Private Flood Insurance appendix to include new ways states are growing the private flood insurance market.
   H. Study, in coordination with other NAIC task forces and working groups, earthquake, severe convective storms and wildfire matters of concern to state insurance regulators.

4. The **NAIC/Federal Emergency Management Agency (FEMA) (C) Working Group** will:
   A. Assist state insurance regulators in engaging and collaborating with FEMA on an ongoing basis by establishing a process for the oversight, prioritization, and reporting of disaster-related regional workshops and other exercises to improve disaster preparation and resilience.

5. The **Terrorism Insurance Implementation (C) Working Group** will:
   A. Coordinate the NAIC's efforts to address insurance coverage for acts of terrorism. Work with the U.S. Department of the Treasury's (Treasury Department's) Terrorism Risk Insurance Program (TRIP) Office on matters of mutual concern. Discuss long-term solutions to address the risk of loss from acts of terrorism.
   B. Review and report on data collection related to insurance coverage for acts of terrorism.

6. The **Transparency and Readability of Consumer Information (C) Working Group** will:
   A. Facilitate consumers' capacity to understand the content of insurance policies and assess differences in insurers' policy forms.
   B. Assist other groups with drafting language included within consumer-facing documents.
   C. Discuss disclosures for premium increases related to P/C insurance products. .
   D. Update and develop web page and mobile content for *A Shopping Tool for Homeowners Insurance* and *A Shopping Tool for Automobile Insurance*.
   E. Study and evaluate ways to engage department of insurance (DOI) communication with more diverse populations, such as rural communities.

NAIC Support Staff: Aaron Brandenburg

Draft: 10/18/22
Adopted by the Executive (EX) Committee and Plenary, TBD
Adopted by the Property and Casualty Insurance (C) Committee, TBD
Adopted by the Casualty Actuarial and Statistical (C) Task Force, Oct. 18, 2022

2023 Proposed Charges

CASUALTY ACTUARIAL AND STATISTICAL (C) TASK FORCE

The mission of the Casualty Actuarial and Statistical (C) Task Force is to identify, investigate, and develop solutions to actuarial problems and statistical issues in the property/casualty (P/C) insurance industry. The Task Force's goals are to assist state insurance regulators with: 1) maintaining the financial health of P/C insurers; 2) ensuring that P/C insurance rates are not excessive, inadequate, or unfairly discriminatory; and 3) ensuring that appropriate data regarding P/C insurance markets are available.

Ongoing Support of NAIC Programs, Products, or Services

1. The **Casualty Actuarial and Statistical (C) Task Force** will:
   A. Provide reserving, pricing, ratemaking, statistical, and other actuarial support to NAIC committees, task forces, and/or working groups. Propose changes to the appropriate work products, with the most common work products noted below, and present comments on proposals submitted by others relating to casualty actuarial and statistical matters. Monitor the activities regarding casualty actuarial issues, including the development of financial services regulations and statistical reporting, including disaster.
      i. Property and Casualty Insurance (C) Committee – Ratemaking, reserving, or data issues.
      ii. Blanks (E) Working Group – P/C annual financial statement, including Schedule P; P/C quarterly financial statement; P/C quarterly and annual financial statement instructions, including the Statement of Actuarial Opinion (SAO) and Actuarial Opinion Summary Supplement.
      iii. Capital Adequacy (E) Task Force – P/C risk-based capital (RBC) report.
      iv. Group Solvency Issues (E) Working Group and Own Risk and Solvency Assessment (ORSA) Implementation (E) Subgroup – ORSA.
      v. Statutory Accounting Principles (E) Working Group – *Accounting Practices and Procedures Manual* (AP&P Manual), and review and provide comments on statutory accounting issues being considered under *Statement of Statutory Accounting Principles (SSAP) No. 65—Property and Casualty Contracts*.
      vi. Speed to Market (D) Working Group – P/C actuarial sections of the *Product Filing Review Handbook*.
   B. Monitor national casualty actuarial developments and consider regulatory implications.
      i. Casualty Actuarial Society (CAS) – Statements of Principles and *Syllabus of Basic Education*.
      ii. American Academy of Actuaries (Academy) – Standards of Practices, Council on Professionalism, and Casualty Practice Council.
      iii. Society of Actuaries (SOA) – General insurance track's basic education.
      iv. Federal legislation.
   C. Facilitate discussion among state insurance regulators regarding rate filing issues of common interest across the states through the scheduling of regulator-only conference calls.
   D. Conduct the following predictive analytics work:
      i. Facilitate training and the sharing of expertise through predictive analytics webinars (Book Club).
      ii. Review the completed work on artificial intelligence (AI) from other Committee groups. Coordinate with the Innovation, Cybersecurity, and Technology (H) Committee on the tracking of new uses of AI, auditing algorithms, product development, and other emerging regulatory issues, in as far as these issues contain a Task Force component.

iii. With the NAIC Rate Model Team's assistance, discuss guidance for the regulatory review of models used in rate filings.

2. The **Actuarial Opinion (C) Working Group** will:
   A. Propose revisions to the following, as needed, especially to improve actuarial opinions, actuarial opinion summaries, and actuarial reports, as well as the regulatory analysis of these actuarial documents and loss and premium reserves:
      i. *Financial Analysis Handbook.*
      ii. *Financial Condition Examiners Handbook.*
      iii. *Annual Statement Instructions—Property/Casualty*.
      iv. Regulatory guidance to appointed actuaries and companies.
      v. Other financial blanks and instructions, as needed.

3. The **Statistical Data (C) Working Group** will:
   A. Consider updates and changes to the *Statistical Handbook of Data Available to Insurance Regulators*.
   B. Consider updates and developments, provide technical assistance, and oversee the production of the following reports and databases. Periodically evaluate the demand and utility versus the costs of production of each product.
      i. *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/ Cooperative Unit Owner's Insurance* (Homeowners Report).
      ii. *Auto Insurance Database Report* (Auto Report).
      iii. *Competition Database Report* (Competition Report).
      iv. *Report on Profitability by Line by State* (Profitability Report).
   C. Enhance the expedited reporting and publication of average auto and average homeowners premium portions of the annual Auto Report and Homeowners Report.

NAIC Support Staff: Kris DeFrain/Libby Crews

Draft: 9/6/22
Adopted by the Executive (EX) Committee and Plenary, TBD
Adopted by the Property and Casualty Insurance (C) Committee, TBD
Adopted by the Surplus Lines (C) Task Force, Oct. 17, 2022

2023 Proposed Charges

SURPLUS LINES (C) TASK FORCE

The mission of the Surplus Lines (C) Task Force is to monitor the surplus lines market and regulation, including the activity and financial condition of U.S. and alien surplus lines insurers by providing a forum for discussion of issues and to develop or amend relevant NAIC model laws, regulations and/or guidelines.

Ongoing Support of NAIC Programs, Products or Services

1. The **Surplus Lines (C) Task Force** will:
   A. Provide a forum for discussion of current and emerging surplus lines-related issues and topics of public policy, and determine appropriate regulatory response and action.
   B. Review and analyze quantitative and qualitative data on U.S. domestic and alien surplus lines industry results and trends.
   C. Monitor federal legislation related to the surplus lines market, and ensure all interested parties remain apprised.
   D. Develop or amend relevant NAIC model laws, regulations, and/or guidelines.
   E. Oversee the activities of the Surplus Lines (C) Working Group.

2. The **Surplus Lines (C) Working Group** will:
   A. Operate in regulator-to-regulator session pursuant to paragraph 3 (specific companies, entities, or individuals) of the NAIC Policy Statement on Open Meetings, and operate in open session when discussing surplus lines topics and policy issues, such as amendments to the International Insurers Department (IID) Plan of Operation.
   B. Maintain and draft new guidance within the IID Plan of Operation regarding standards for admittance and continued inclusion on the NAIC *Quarterly Listing of Alien Insurers*.
   C. Review and consider appropriate decisions regarding applications for admittance to the NAIC *Quarterly Listing of Alien Insurers*.
   D. Analyze renewal applications of alien surplus lines insurers on the NAIC *Quarterly Listing of Alien Insurers,* and ensure solvency and compliance per the IID Plan of Operation guidelines for continued listing.
   E. Provide a forum for surplus lines-related discussion among jurisdictions.

NAIC Support Staff: Andy Daleo

Draft: 10/24/22
Adopted by the Executive (EX) Committee and Plenary, TBD
Adopted by the Property and Casualty Insurance (C) Committee, TBD
Adopted by the Title Insurance (C) Task Force, Oct. 24, 2022

2023 Proposed Charges

TITLE INSURANCE (C) TASK FORCE

The mission of the Title Insurance (C) Task Force is to study issues related to title insurers and title insurance producers.

Ongoing Support of NAIC Programs, Products or Services

1. The **Title Insurance (C) Task Force** will:
   A. Discuss and/or monitor issues and developments affecting the title insurance industry, and provide support and expertise to other NAIC committees, task forces and/or working groups, or outside entities, as appropriate.
   B. Review and assist various regulatory bodies in combating fraudulent and/or unfair real estate settlement activities. Such efforts could include working with the Antifraud (D) Task Force and other NAIC committees, task forces and/or working groups to combat mortgage fraud and mitigating title agent defalcations through the promotion of closing protection letters (CPLs) and other remedies.
   C. Consult with the Consumer Financial Protection Bureau (CFPB) and other agencies responsible for information, education, and disclosure for mortgage lending, closing services, and settlement services about the role of title insurance in the real estate transaction process.
   D. Update the 2019 *Survey of State Insurance Laws Regarding Title Data and Title Matters*.
   E. Review Section 15C of the *Title Insurers Model Act* (#628) to determine if a request should be made to remove the requirement for on-site review of underwriting and claims practices.
   F. Obtain information on consumer complaints submitted to states regarding title insurance to determine if updates are needed to insurance regulatory best practices or standards.

NAIC Support Staff: Anne Obersteadt/Aaron Brandenburg

Draft: 10/7/22
Adopted by the Executive (EX) Committee and Plenary, TBD
Adopted by the Property and Casualty Insurance (C) Committee, TBD
Adopted by the Workers' Compensation (C) Task Force, Oct. 7, 2022

2023 Proposed Charges

WORKERS' COMPENSATION (C) TASK FORCE

The mission of the Workers' Compensation (C) Task Force is to study the nature and effectiveness of state approaches to workers' compensation and related issues, including, but not limited to: assigned risk plans; safety in the workplace; treatment of investment income in rating; occupational disease; cost containment; and the relevance of adopted NAIC model laws, regulations and/or guidelines pertaining to workers' compensation.

Ongoing Support of NAIC Programs, Products or Services

1. The **Workers' Compensation (C) Task Force** will:
   A. Oversee the activities of the NAIC/International Association of Industrial Accident Boards and Commissions (IAIABC) Joint (C) Working Group.
   B. Discuss issues with respect to advisory organizations, rating organizations, statistical agents and insurance companies in the workers' compensation arena.
   C. Monitor the movement of business from the standard markets to the assigned risk pools. Alert state insurance department representatives if the growth of assigned risk pools changes dramatically.
   D. Follow workers' compensation issues regarding cannabis in coordination with the Cannabis Insurance (C) Working Group.
   E. Discuss workers' compensation issues related to COVID-19 and Teleworking.

2. The **NAIC/IAIABC Joint (C) Working Group** will:
   A. Study issues of mutual concern to state insurance regulators and the IAIABC. Review relevant IAIABC model laws and white papers and consider possible charges in light of the Working Group's recommendations.

NAIC Support Staff: Sara Robben/Aaron Brandenburg

https://naiconline.sharepoint.com/sites/NAICSupportStaffHub/Member%20Meetings/C%20CMTE/2022_Fall/2023%20C%20CmteDraftChargesv1.docx

CENTER for ECONOMIC JUSTICE | FAIR ACCESS FAIR TREATMENT

Addressing Flood Peril as Climate Changes: State Insurance Regulators Must Step Up to Offer A New National Strategy Needed

NAIC Property Casualty (C) Committee

December 15, 2022

Birny Birnbaum

The Center for Economic Justice

CEJ is a non-profit consumer advocacy organization dedicated to representing the interests of consumers – particularly consumers of modest means and of communities of color – as a class on economic justice issues. Most of our work is before administrative agencies on insurance, financial services and utility issues.

On the web: www.cej-online.org

About Birny Birnbaum

Birny Birnbaum is the Director of the Center for Economic Justice, a non-profit organization whose mission is to advocate on behalf of low-income consumers on issues of availability, affordability, accessibility of basic goods and services, such as utilities, credit and insurance.

Birny, an economist and former insurance regulator. He's performed numerous market analyses of insurance markets for many lines of insurance. He has served for many years as a designated Consumer Representative at the National Association of Insurance Commissioners and is a member of the U.S. Department of Treasury's Federal Advisory Committee on Insurance, where he co-chairs the subcommittee on insurance availability.

Birny served as Associate Commissioner for Policy and Research and the Chief Economist at the Texas Department of Insurance. At the Department, Birny developed and implemented a robust data collection program for market monitoring and surveillance.

Birny was educated at Bowdoin College and the Massachusetts Institute of Technology. He holds Master's Degrees from MIT in Management and in Urban Planning with concentrations is finance and applied economics. He holds the AMCM certification.

What are the Goals of a National Strategy to Address the Peril of Flood?

- Educate consumers, businesses and communities about the risk of flooding for informed purchase and mitigation investment decisions.
- Promote Investment in mitigation.
- Promote Investment in resilience.
- Massively increase use of flood insurance – universal coverage.
- Equitable use of public resources.
- Fair pricing of flood insurance.

No Criticism of FEMA or the NFIP

The current problems with flood insurance outlined in this presentation are not a criticism of FEMA or the NFIP nor a result of poor performance of FEMA or the NFIP.

FEMA and the NFIP are working within the constraints and conflicting directives of Congress.

What’s the Current Situation?

- Flood Excluded from Residential Property Insurance, Separate Policy Purchase Required
- Inequitable Requirements for Flood Insurance Purchase
- Poor or Mis-Information to Consumers, Unfulfilled Expectations
- Inadequate Purchase of Flood Insurance -- Most Consumers Facing Flood Risk Without Flood Insurance
- Inefficient Delivery of Flood Insurance by the NFIP
- Inefficient and Conflict-ridden Claim Settlement
- Little Use of the State-based Regulatory System

The Current Situation – Recent News

“Extreme floods expose flaws in FEMA’s risk maps”

A Washington Post analysis of videos taken by people who endured destruction from flooding pinpoints how federal maps are failing to reflect the growing peril that Americans face.

FEMA officials have testified to Congress that over 40 percent of NFIP claims made in 2017 to 2019 were for properties outside official flood hazard zones, or in areas the agency had yet to map.

“Maps do not forecast flooding. Maps only reflect past flooding conditions and are a snapshot in time. They do not represent all hazards and do not predict future conditions,” Michael Grimm, acting deputy associate administrator of FEMA’s Federal Insurance and Mitigation Administration, told The Post.

The Current Situation – Recent News

“Maine’s decades-old flood maps don’t always factor in sea rise and climate change. Outdated, inaccurate or missing maps may mean property owners aren’t aware of flood risk.”

As Congress looks to reauthorize the chronically-underfunded National Flood Insurance Program next week, much of Maine is operating with flood maps that are decades old, if they exist at all. And the new maps that are being drawn are not designed for a changing climate. They don’t account for sea level rise or the kind of extreme rainfall events that are becoming increasingly common in Maine and elsewhere around the country.

The Current Situation – Recent News

In Arcadia, many residents without insurance struggling to rebuild after hurricane

Insurance unaffordability has compounded problems in this city far from the coast that was hit hard by Hurricane Ian.

Florida residents impacted by flood damage facing insurance claim denials

A lot of homeowners found out the hard way during Hurricane Ian that their home insurance policies don't cover flood damage.

Inequitable Mandatory Flood Insurance Purchase Requirements

Currently, flood insurance is a mandatory purchase if property is located in a SFHA. But, maps don't accurately reflect flood risk while creating a binary requirement that can change as a new flood map is adopted. Result is purchase requirements not actually tied to current flood risk.

Giving consumers the "choice" to go uninsured for a peril they can't meaningfully assess isn't doing anyone a favor. Withholding the true cost of protection and the cost of maintaining a property isn't doing anyone a favor and generates huge societal costs for everyone.

Mixed Messages for Consumers

Flood insurance is a mandatory purchase for federal government-issued or insured loans for properties in designated Special Flood Hazard Areas. SFHAs created through FEMA mapping in a multi-year process with tens of thousands of communities across the country.

- Maps don’t reflect current flood risk
- Mapping flood risk politicized
- Flood risk presented as binary – yes if in SFHA, no if not
- Decades of consumer education has not moved the needle on voluntary purchase of flood insurance

Inefficient and Inequitable Delivery of Flood Insurance through the NFIP

While Risk Rating 2.0 is attempting to bring risk-based pricing to NFIP policies, NFIP premiums continue to provide subsidies to consumers who have the means to pay the risk-based price.

Even assuming full implementation of Risk Rating 2.0, NFIP premiums remain inequitable and the provision of flood insurance through a second policy, instead of a covered peril within the property insurance policy, is grossly inefficient

Where the NFIP Premium Dollar Goes

According to FEMA, as of December 31, 2021, the average NFIP charge is $771, of which $724 is the premium and $47 is the Federal Policy Fee.

Of the premium:

49% goes to claims and claim settlement.

30% goes to Write-Your-Own companies for distribution and servicing

11% goes to debt service for prior disasters requiring federal loans

5% goes to operating costs

5% goes to FEMA Grants for flood mitigation

Where the NFIP Premium Dollar Goes

Of the $47 Federal Policy Fee,

79% goes to flood mapping

14% goes to floodplain management

7% goes to FEMA “Mission Support”

Nearly 11% of the $771 charge goes to things other than flood insurance – charging NFIP policyholders for activities that benefit all members of society.

The NFIP also purchases private reinsurance, despite the federal government having far more resources than the reinsurance market.

Separate Flood Insurance Policy is Inefficient

In addition to the costs unrelated to the provision of flood insurance, the NFIP policy – as well as private flood insurance provided through policies separate from the residential property insurance policy – is an inefficient way to deliver insurance coverage for the peril of flood.

Instead of simply adding the costs of flood risk coverage to the homeowners policy, a separate policy duplicates the sales cost – 30% of premium in the case of the NFIP policy.

NFIP / Separate Flood Policy Inflates Claim Settlement Expenses, Creates Conflict of Interest

A separate flood insurance policy requires the determination whether the damage is covered under the residential property insurance policy, the flood policy or neither.

In the case of the WYO carriers, this creates a conflict of interest in which they are asked to decide if damage is covered under their policy or the NFIP policy.

Tens of thousands of claims are filed and denied because consumers don’t understand that flood damage is not covered by their residential property insurance policy -- not just adding expense to the system but defying consumer expectations, despite decades of “education.”

Separate Flood Policies Generate Inconsistencies with Residential Property Insurance Policies and Sideline State Insurance Regulators

NFIP (and most private flood) policies cap coverage at $250,000 – which can be much lower than Coverage A on residential property insurance policies and effectively creating massive flood insurance deductibles.

Claim settlement provisions for NFIP and surplus lines polices vary from standard residential property insurance and limit state regulator involvement.

Surplus lines private flood not subject to rate or form supervision by state insurance regulators.

Little Engagement by Insurers in Flood Mitigation and Resilience

Unlike other countries where private insurers provide flood insurance as part of risk-sharing partnerships with government and where private insurers are actively engaged in flood risk mitigation and resilience efforts, few insurers in the US are so engaged.

A national strategy to address the peril of flood requires massive engagement by the insurance industry, including provision of coverage for flood.

The Problems

- Relatively few homeowners and businesses purchasing flood insurance and consequently relying on disaster relief or savings to recover from flooding events.
- Improper risk and price signals to individuals and businesses making investment decisions about property purchases.
- Inadequate incentives for loss mitigation due to subsidized rates;
- Federal expenditures for disaster relief that leave individuals and communities more susceptible to future loss instead of more resilient and sustainable.
- Subsidies for consumers who do not need financial assistance and lack of or inadequate government assistance for those who do need financial assistance to purchase flood insurance or invest in flood mitigation.

The Problems

- Subsidies by some taxpayers of other taxpayers in the offer of and cost to deliver flood protection.
- Inefficient delivery of coverage for flood with additional administrative costs for private insurers to sell the NFIP policy separate from the standard residential or commercial property insurance policy.
- Lack of standard insurance consumer protections found in state regulation of residential and commercial property insurance.
- Lack of a residual market for flood insurance, leaving force-placed flood insurance as the de facto residual market.

The Way Forward

- Federal requirement for flood insurance for all federally-involved mortgages.
- State requirement for inclusion of flood coverage in residential property insurance policies. Turn flood insurance back to the states as with other property insurance.
- Transform the NFIP from a direct provider of flood insurance to a TRIA-like reinsurer for mega-flooding events with state-specific attachment points.
- Focus federal resources on mapping, mitigation, resilience and means-tested assistance to consumer facing affordability issues.

What would this accomplish?

- Facilitate private insurer provision of flood insurance by capping the current unlimited exposure – as demonstrated by TRIA.
- Massively improve individual and community resilience through near universal flood insurance.
- Reduce the cost of flood coverage for vast majority of consumers.
- Utilize, in real time, current and emerging expertise in flood risk mapping.
- Create a public-private partnership that meaningfully engages the insurance industry, as done in other countries. Incentivizes insurers for greater engagement in flood mitigation and resilience.
- More transparent and accurate prices to consumers and businesses making investment decisions on the purchase of real property, including the proper economic signals for investments in loss mitigation.

What would this accomplish?

- Greater opportunity to utilize the expertise of private insurers, reinsurers and catastrophe modelers on flood risk identification and mitigation.
- All consumers and businesses will have coverage they expect and pay their fair share for that coverage.
- More efficient and lower-cost delivery of flood coverage than through a separate NFIP or private flood policy – efficiencies in sales, administration and claims settlement.
- Lower costs through a larger, more diversified risk pool.
- Federal financial assistance targeted to those in need and to investments in sustainability and resiliency.
- State-based consumer protections for sales and claims settlement by insurance departments who have over 100 years of experience and the regulatory infrastructure in protecting consumers and addressing market failures.

How do we get there?

- **NAIC / State Insurance Regulator Leadership to Guide Congress.**
- Set full implementation date 24 months after Congressional action and reauthorize NFIP through that period.
- Assess/Quantify flood exposure by state and establish state-specific attachment points for FRIP (Federal Flood Reinsurance Program) that don't crowd out private reinsurance. Phase-in higher attachment points for FRIP. NAIC role for data collection and analysis for these annual calculations
- NAIC efforts to promote best practices for flood coverage policy language in residential property policies, pricing oversight and flood risk models.
- Reliable Federal funding for critical FEMA activities – mapping, mitigation, floodplain management – to reflect benefits for all Americans
- Affordability assistance outside of insurance pricing – respect risk-based pricing.
- Forgive NFIP debt upon conversion to reinsurance mechansism.

Questions?

Thanks for the opportunity to visit with you today.