

PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

Property and Casualty Insurance (C) Committee April 7, 2022, Minutes

Cannabis Insurance (C) Working Group March 24, 2022, Minutes (Attachment One)

Catastrophe Insurance (C) Working Group and NAIC/Federal Emergency Management Agency (FEMA) (C)

Advisory Group April 4, 2022, Minutes (Attachment Two)

Catastrophe Insurance (C) Working Group March 4, 2022, Minutes (Attachment Two-A)

NAIC/FEMA (C) Advisory Group March 25, 2022, Minutes (Attachment Two-B)

Draft Pending Adoption

Draft: 4/19/22

Property and Casualty Insurance (C) Committee
Kansas City, Missouri
April 7, 2022

The Property and Casualty Insurance (C) Committee met in Kansas City, MO, April 7, 2022. The following Committee members participated: Mike Chaney, Chair (MS); Alan McClain, Co-Vice Chair (AR); Anita G. Fox, Co-Vice Chair (MI); Jim L. Ridling (AL); Ricardo Lara (CA); Andrew N. Mais, George Bradner, and Wanchin Chou (CT); Trinidad Navarro (DE); Colin M. Hayashida represented by Martha Im and Kathleen Nakasone (HI); Vicki Schmidt (KS); James J. Donelon (LA); Chris Nicolopoulos (NH); Glen Mulready (OK); Larry D. Deiter (SD); Tregenza A. Roach (VI); Allan L. McVey (WV). Also participating were: David Altmaier (FL); Eric Dunning (NE); Martha Lees (NY); Mike McKenney (PA); and Eric Slavich (WA).

1. Adopted its 2021 Fall National Meeting Minutes

Commissioner McVey made a motion, seconded by Director Fox, to adopt the Committee's Dec. 15, 2021 minutes (see *NAIC Proceedings – Fall 2021, Property and Casualty Insurance (C) Committee*). The motion passed unanimously.

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

A. Casualty Actuarial and Statistical (C) Task Force

Mr. Slavich said the Casualty Actuarial and Statistical (C) Task Force March 8 in lieu of the Spring National Meeting. During that meeting, the Task Force adopted a document with guidance for the regulatory review of random forest rate models. This document is a follow-up to the Task Force's white paper titled *Regulatory Review of Predictive Models*, which was adopted last spring. In writing the initial white paper, the Task Force focused on just one predominate type of multivariate analysis: generalized linear models (GLMs). The new guidance deals with random forest models, and the Task Force intends to continue working to create guidance for other types of models.

Mr. Slavich said the Task Force has been discussing an issue raised by the American Academy of Actuaries (Academy) related to accounting practices for portfolio retroactive reinsurance. In May 2019, the Academy wrote to the Task Force and the Statutory Accounting Principles (E) Working Group about this issue, and the Working Group asked the Task Force for input. After investigating the issue and after a long period of discussion, the Task Force decided to proceed with writing some suggested revisions to the instructions for Schedule P and perhaps also for paragraph 36 and paragraph 37 in the *Statement of Statutory Accounting Principles (SSAP) No. 62R—Property and Casualty Reinsurance*. The Task Force will provide these suggestions to the Statutory Accounting Principles (E) Working Group for its consideration.

Mr. Slavich also said the Statistical Data (C) Working Group has been working with statistical agents to implement accelerated publishing of average premium data. The Working Group decided to include accelerated average premiums every year for the *Dwelling, Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance Report* (Homeowners Report). This will result in the production of two reports in 2022: 1) the normal report with 2020 data; and 2) an accelerated report with 2021 data. Only one report will be needed in subsequent years. Discussions about expedited reporting for the *Auto Insurance Database Report* (Auto Report) are ongoing.

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Mr. Slavich also reported the Task Force continues to meet regularly, including both a monthly Book Club meeting to educate on predictive modeling and a monthly regulator-to-regulator meeting to discuss rate filing issues. These discussions have proven to be a valuable resource for regulatory actuaries (and non-actuary regulators), and the Task Force intends to continue with these meetings.

B. Surplus Lines (C) Task Force

Commissioner Donelon said the Surplus Lines (C) Task Force has not met yet in 2022, but it plans to meet soon to hear from the drafting group looking at the *Nonadmitted Insurance Model Act* (#870). That drafting group is working to modernize this model to bring it in line with the federal Nonadmitted and Reinsurance Reform Act (NRRRA).

C. Title Insurance (C) Task Force

Director Dunning said the Title Insurance (C) Task Force met April 5 to hear states report on how they deal with wire fraud issues referred by title agents, as well as how states handle closing protection letters (CPLs). The Task Force also heard a presentation from industry on CPL policy language, including exclusions, and discussed its work plan for the year.

Director Dunning said the work plan includes meeting in regulator-to-regulator session in June with the Consumer Financial Protection Bureau (CFPB) to discuss recent changes, Real Estate Practices Act (RESPA) activities, and how states should collaborate with the CFPB. Additionally, the work plan calls for hearing from industry on what the post-pandemic future of the title insurance industry will look like, particularly in regard to virtual closings. It also calls on industry to share how complications arise from the required use of plans by some states that include rules or forms tailored to other lines of insurance. Director Dunning said the Task Force will review the Title Insurance Model Act to determine if there is a need to make a recommendation to remove the requirement for on-site review of underwriting and claims practices.

Director Fox asked if there was a date scheduled for the next Title Insurance (C) Task Force meeting, to which Director Dunning replied that it had not been set yet.

D. Workers' Compensation (C) Task Force

Commissioner McClain said the Workers' Compensation (C) Task Force met March 21 in lieu of the Spring National Meeting. The Task Force heard updates on federal legislation, including original language included in the Build Back Better Act that provided funding to the U.S. Department of Labor (DOL) Office of Workers' Compensation Programs (OWCP) for "monitoring of state workers' compensation programs." That language was ultimately removed. The Task Force heard updates on cannabis, independent contractor, and single-payer health care, and state and federal legislation as related to workers' compensation.

E. Cannabis Insurance (C) Working Group

Commissioner Lara said the Cannabis Insurance (C) Working Group met March 24 in lieu of the Spring National Meeting. During its meeting, the Working Group heard from two presenters on the state of the cannabis insurance industry. It also heard an update on federal cannabis-related legislative activities and discussed its 2022 work plan. The work plan includes monitoring cannabis-related federal legislative activities. It also includes completing the updates to the *Understanding the Market for Cannabis Insurance* white paper through continued drafting sessions every few weeks. The goal is to expose the draft white paper during or shortly after the Summer National Meeting, review comments received before the Fall National Meeting, and consider adoption during the Fall National Meeting.

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Commissioner Lara said the work plan also calls for continued discussion with the Producer Licensing (D) Task Force on whether there is a need to collaborate to study social equity issues in states where cannabis is legalized for medical and/or recreational use.

Commissioner Lara said the work plan calls on the Working Group to explore emerging issues and market availability constraints through additional presentations. This includes exploring the risks of minor CBD-derived intoxicants and social consumption lounges and how a federal cannabis regulatory framework could help inform insurers' coverage offerings.

F. Catastrophe Insurance (C) Working Group

Commissioner Altmaier said the Catastrophe Insurance (C) Working Group met March 4 and in joint session with the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group April 4. The Working Group is currently working on updates to the *Catastrophe Modeling Handbook*. NAIC staff sent a survey to states regarding the Handbook in order to collect information from the states to help guide the update of the Handbook. A drafting group has met once to begin the process of updating the Handbook.

Commissioner Altmaier said the Working Group stays informed about catastrophic events in other states and shares lessons learned and processes other states use in the aftermath of a storm or other catastrophic event. On April 4, the Working Group heard an update from Iowa and Tennessee state insurance regulators regarding recent catastrophic weather events. Commissioner Altmaier reported that the NAIC has been partnering with FEMA on regional events to help state departments of insurance (DOIs) form better relationships with their FEMA partners. During the April 4 meeting, Commissioner Mulready provided the Working Group with an overview of past FEMA regional meetings, as well as the upcoming FEMA Region 6 meeting that will be held in Oklahoma City, OK, May 3–4. Commissioner Altmaier also said NAIC staff continue to add information to the Catastrophe Resource Center and are looking for state insurance regulator input.

Commissioner Chaney reported the Missouri Department of Commerce and Insurance will be cohosting the Central U.S. Quake Insurance Summit May 23–24 in St. Louis, MO.

G. Pet Insurance (C) Working Group

Commissioner Chaney provided an update on the status of the Pet Insurance Model Act. The model was previously adopted by the Property and Casualty Insurance (C) Committee but was pulled off the Plenary agenda at the 2021 Fall National Meeting because a couple states brought forth concerns about the producer training section of the model.

Commissioner Chaney said the model will be exposed with small revisions, and comments will be discussed during an upcoming meeting of the Pet Insurance (C) Working Group. Commissioner Chaney said the Pet Insurance (C) Working Group was not reappointed in 2022 because it was thought its work was complete.

Commissioner Schmidt made a motion, seconded by Director Deiter, the Committee adopted a charge for the Pet Insurance (C) Working Group to “complete the development of a model law to establish appropriate regulatory standards for the pet insurance industry.”

Director Fox made a motion, seconded by Commissioner McVey, to adopt an extension to the Summer National Meeting for revisions to the proposed Pet Insurance Model Act. The motion passed unanimously.

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H. Terrorism Insurance Implementation (C) Working Group

Ms. Lees said the Terrorism Insurance Implementation (C) Working Group has not met yet this year, but it does plan to meet in the near future to receive an analysis of the recently received workers' compensation data, as well as last year's data received in the non-workers compensation portion of the state insurance regulator data call. Ms. Lees said the Federal Insurance Office (FIO) and the NAIC formally notified insurers of this year's data call on April 1 by providing instructions to insurers for submitting the data to both locations. She said the due date will be May 16, and additional information can be found on the NAIC and the U.S. Department of the Treasury (Treasury Department) websites.

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

Mr. Bradner said the Transparency and Readability of Consumer Information (C) Working Group has been working on a project over the past year to draft regulatory best practices that serve to inform consumers of the reasons for significant premium increases related to property/casualty (P/C) insurance products. The Working Group formed drafting groups in three areas: 1) disclosure language; 2) rate filing checklist; and 3) consumer education. He said the disclosure language and the rate filing checklist drafting groups have completed their work, and the consumer education drafting group has sent its final document to Brenda J. Cude (University of Georgia) to be reviewed for readability. These documents will be combined into a single "best practices" document. Mr. Bradner said the Working Group will meet in April to review the document and expose it for comment. The Working Group anticipates this project to be complete sometime in May and sent to the Property and Casualty Insurance (C) Committee for consideration of adoption during the Summer National Meeting.

Commissioner Mulready made a motion, seconded by Commissioner Ridling, to adopt the following taskforce 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 One); Catastrophe Insurance (C) Working Group (Attachment Two); Pet Insurance (C) Working Group; Terrorism Insurance Implementation (C) Working Group; and Transparency and Readability of Consumer Information (C) Working Group. The motion passed unanimously.

3. Heard a Presentation on PPA Insurance Results

Aaron Brandenburg (NAIC) said NAIC staff was asked by the Committee to analyze Annual Statement data to show trends in private passenger auto (PPA) premiums and losses through 2021 when possible. He noted most of the data comes from the Insurance Expense Exhibit in order to create combined ratios. This exhibit comes into the NAIC on April 1, so combined ratios for 2021 are not presented within the analysis.

For PPA liability, written premium fell in 2020 due to the COVID-19 pandemic. Premium rose every year over the past 10 years, typically in the 2%–7% range, except for in 2020, when it fell 2%. Premium rebounded in 2021 with about a 6% increase. Loss ratios for PPA liability typically ranged from 63%–71% over the last 10 years, with a 10-year average of 65.5%. The loss ratio for 2020 was 56%, and 2021 is at the 10-year average. The 10-year average for combined ratio is 103%, with 2020 as the only year below 100% at 94.8%. Mr. Brandenburg said it seems likely that 2021 will be close to average in the low 100 percentile.

Mr. Brandenburg said PPA physical damage premium rose every year over the past 10 years, but it fell in 2020. Physical damage usually rises between 2% and 9%, with 2020 the only decrease at about 1%. PPA physical damage premium rose 9% in 2021. The 10-year average loss ratio is 64.4%, with 2020 at 55% and 2021 at 71.5%. The combined ratio for PPA physical damage is 97.3%, with 2020 at 89.2%.

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Mr. Brandenburg noted the PPA market of \$250 billion or \$260 billion is historically around 35% of the total P/C insurance industry. The total PPA market usually rises from 3% to 8% in premium, but premium fell nearly 2% in 2020, with a 7% increase in 2021. The 10-year average loss ratio for the PPA industry as a whole was 65%, with 2020 under 56%, and 2021 at 68%. The combined ratio was about 101%, with 2020 at a 92.5% combined ratio. Mr. Brandenburg said it is expected that 2021 will see a combined ratio above 100%.

Mr. Brandenburg said the NAIC's annual *Report on Profitability By Line By State* (Profitability Report) is produced later in the year, so 2021 results are not available. However, he said the average return on net worth (RNW) for the PPA line as a whole is 4.86%. He said the years 2018–2020 were above average, with 2020 coming in at 10.2% RNW. It is expected 2021 RNW decrease, and that number will be shared with the Committee when available.

Mr. Brandenburg asked if the Committee would like additional quarterly data. He said the Annual Statement has quarterly data showing national loss ratios for PPA. In addition, the NAIC and states receive Fast Track data from statistical agents. The Fast Track data represents not all but a significant portion of the PPA industry and is received on a quarterly basis. Mr. Brandenburg said NAIC staff have created charts showing quarterly trending with frequency and severity figures. He noted the data is a snapshot in time and only a subset of larger writers within the market. He also said the Statistical Data (C) Working Group is reviewing the *Statistical Handbook of Data Available to Insurance Regulators*, which describes statistical data submitted to states.

Director Fox said state insurance regulators would find value in reviewing quarterly data especially related to reduced driving and whether there has been an increase in automobile part costs.

Mr. Chou asked if NAIC staff would be working with the Statistical Data (C) Working Group to update average premium figures. Mr. Brandenburg said the NAIC publishes the Auto Report annually, which includes average auto premiums by state, and the Statistical Data (C) Working Group is considering changes that would move the publication of those figures up.

Birny Birnbaum (Center for Economic Justice—CEJ) said the CEJ and the Consumer Federation of America (CFA) reported at the Property and Casualty Insurance (C) Committee meeting in December 2021 that the auto insurance industry had received windfall profits. He said industry results can be deceptive because they combine mutual insurer results with publicly traded insurers. He said the industry focuses on increasing claim costs when convenient, but it does not talk about a decrease in claims such as in 2020. He also said the industry receives additional premium as vehicle values increase. He said the windfall profits of 2020 were not offset by 2021 and 2022. He noted that insurers asked for rate increases in 2021 and that insurers did not lose money in 2021 or 2022. Mr. Birnbaum said state insurance regulators need improved data and authorities to prevent future windfall profits.

Director Fox asked about profitability results and the relationship between premium and claims and distinguishing between what came from premium compared to investment income. Mr. Birnbaum said combined ratios have other expenses included but not profits from investment income. He said investment income has been relatively stable and does not change dramatically.

4. Heard a Presentation Related to the Effects of Inflation on Auto and Homeowners Lines

Susanna Gotsch (CCC Intelligent Solutions) said CCC Intelligent Solutions is a software as a service (SaaS) provider that handles repair costs in auto physical damage claims. She said the COVID-19 pandemic saw a significant drop-off in driving, with a greater than 13% decline in miles driven in 2020. She said miles driven recovered throughout 2021 and exceeded pre-pandemic levels. She said CCC processed about 12 million claims in 2021, where a normal year pre-pandemic would see about 16 million claims. She said claims continue to increase.

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Ms. Gotsch said a claim often flags whether a vehicle is drivable or not because a non-drivable vehicle will typically see average repair costs of around \$6,000 compared to around \$3,000 for a drivable vehicle. During the pandemic, the industry started to see a steady uptick in the percent of claims that were non-drivable losses, with higher repair costs. She said vehicle repair costs climbed more than 9% in 2021. She noted a lot of these increases have to do with a changing vehicle fleet and the content of those vehicles with more expensive components within the vehicle. She said the average new vehicle contains more than 100 semiconductor chips. She noted that raw materials costs have been increasing, with average costs paid per auto part up more than 8%. She also explained that supply chain disruptions and the Russian invasion of Ukraine are adding significant cost pressures to the average replacement part.

Ms. Gotsch said the benefits of the advanced driver-assistance systems (ADAS) have become less beneficial because of congested roads and higher speeds. She said 96% of repair shops have a backlog for repairs. She said used vehicle values will remain elevated and that the cost of total loss claims showed a 25% increase in 2021. She noted that the auto insurance industry is seeing more distracted driving, higher speeds, and more severe injuries.

Robert Hartwig (University of South Carolina) said the year-over-year (YOY) inflation rate was 7.5% in January 2022, with February at 7.9%, the highest figure in 40 years. He said the personal auto claims severity is as high as it has been over the past several decades. He also noted people are driving more and involved in more accidents. He said police departments are showing an increase in excess speed and substance abuse.

Mr. Hartwig said PPA loss ratios have increased quickly throughout 2021 in each quarter. The physical damage loss ratio has increased quickly after falling in 2020. The homeowners loss ratio has increased by 15 points since 2019 and in 2021 was 12.8 points higher than the all-property and casualty lines average.

Mr. Hartwig said lumber and wood product prices have more than doubled from pre-COVID-19 and have come down about a third since then. He also explained investment yields in 2021 were depressed, down about 2.6% in the first three quarters of 2021, the lowest figures since 1960. Net investment income has dropped about 12% since 2018. He said P/C insurance profitability is significantly below that of the Fortune 500 companies. The ratio of premium to policyholder surplus is relatively stable over time. Inflation-adjusted insured catastrophe losses have increased over the past five years, which is driving up the cost of property insurance. The P/C insurance industry is experiencing a sharp increase in claim severities affecting property, liability, and auto coverages. Mr. Hartwig noted inflation, catastrophe losses, demand surge, and increased dangerous driving behaviors are all contributing to the increase in severities and loss ratios. Investment income has been falling in recent years. He said rate adequacy is a concern. He noted insurers use current trend data to develop rates prospectively, hence the pressure to adjust rates accordingly.

Commissioner Mulready asked what state insurance regulators could do help navigate these sharp increases in costs.

Mr. Hartwig said some of the things are beyond control, such as the decrease in seatbelt use and increase in excessive speeding. He said there is hope that new technologies will decrease accidents, but this also leads to more expensive repairs. Ms. Gotsch said though driver-assistance features improve safety, they also increase driver distraction generally.

Commissioner McVey said state insurance regulators can provide additional consumer education about how people can reduce their claims through human behavior. He asked whether there would be some stabilization in the inflation rate. Ms. Gotsch said the semiconductor shortage has caused a decline in new vehicle production, which has put more people into the used vehicle market and has driven up the cost of U.S. vehicle prices. Mr. Hartwig said eventually inflation will come down from current levels, but wages and prices will normalize at a new, higher level.

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Mr. Chou asked about bodily injury severity increasing by 14%, while physical damage increased 6.7%. Mr. Hartwig said bodily injury is most heavily influenced by medical costs. He said more impaired driving and distracted driving will result in more severe accidents.

Mr. McKenney said the data he has seen shows an increase in severity but declines in accident frequency. He said a decrease in severity does not usually offset the decline in frequency on the liability side. He said liability also has limits, which means severity has a limited impact. He said he believes insurers should not just increase rates on everyone, particularly those with lower limits who are not contributing to the increased severity. He noted that loss ratios are the most misunderstood statistic in actuarial science as they represent so many different things.

5. Discussed its Charge Related to Parametric Insurance Products

Commissioner Chaney said the Committee has a charge related to parametric insurance products that asks the Committee to provide a forum for discussing issues related to parametric insurance and to consider the development of a white paper or regulatory guidance. He said the Committee will hear from parametric insurance providers in the future. In addition, the Climate and Resiliency (EX) Task Force has a workstream looking at innovation that has heard from numerous parametric insurance providers related to climate risks. Commissioner Chaney said NAIC staff will look at those presentations and begin to create a document that would summarize the various products being introduced in the market along with some potential regulatory issues. He said the Committee will begin to work on a white paper related to parametric insurance with a goal of drafting a paper in 2022.

6. Heard a Presentation on Gun Owners Liability

Peter Kochenburger (University of Connecticut School of Law) said San Jose, California, recently passed an ordinance requiring residents who possess guns to have liability insurance to cover accidental gun deaths. He said the number of firearm deaths and injuries have increased in the past few years. He noted the idea of the ordinance is that by requiring gun owners to have insurance, this will lead to insurers to study the risk and ask the questions necessary to evaluate whether a gun owner is storing and using the gun in the safest manner possible.

Mr. Kochenburger said the ordinance includes a \$25 fee and requires the gun owner to maintain a liability policy that specifically covers losses resulting from the accidental use of the firearm. Mr. Kochenburger said the provision has been challenged in court. He noted that virtually all homeowners and renters policies currently cover the accidental usage of firearms. In 2020, 95% of gun deaths were suicides and homicides and accidental discharges account for only 1.2% of all deaths. He said using the traditional functions of insurance to address a social problem has been done before, but this particular ordinance is not likely to be very effective. He also noted that it injects insurers into a contentious public policy debate.

7. Heard a Federal Update

Brooke Stringer (NAIC) said the NAIC attended a virtual roundtable with Republican committee members, insurers, and policyholders to discuss pandemic risk insurance. The NAIC submitted a statement for the record supporting the development of a federal business interruption mechanism provided it does not undermine regulatory authorities, jeopardize insurer financial condition, and is otherwise affordable to policyholders. The NAIC has not taken a position on any specific proposal at this time. No Republicans support Rep. Carolyn B. Maloney's (D-NY) Pandemic Risk Insurance Act (PRIA) (H.R. 5823), which would establish a federal Pandemic Risk Reinsurance Program to provide a system of shared public and private compensation for business interruption (BI) losses resulting from a pandemic, subject to certain conditions, deductibles, and caps. The NAIC will continue to monitor proposals, but given the insurance trades' opposition to PRIA, Republican opposition to the bill, and significant

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funding with the pandemic and infrastructure bills, there may not be much of an appetite for developing such a new federal program at this time.

Ms. Stringer said NAIC staff have met with the staff of Rep. Maxine Waters (D-CA), chair of the U.S. House Committee on Financial Services, to discuss the House Subcommittee on Diversity and Inclusion's plans to study the insurance industry. They have previously produced reports on banks/investment firms. She noted that the insurance industry has begun to receive letters, and the Subcommittee hopes to have a report finalized before the elections.

Ms. Stringer reported that the FIO is preparing an auto insurance availability and affordability report for Congress focusing on underserved communities and the impact of non-driving factors. The FIO issued a request for information in 2021 soliciting input as follow up to its 2017 report.

Ms. Stringer said the staff of Sen. Sherrod Brown (D-OH), chair of the U.S. Senate Committee on Banking, Housing, and Urban Affairs, are drafting a bill to expand the federal Liability Risk Retention Act (LRRRA) to allow risk retention groups (RRGs) to sell property insurance provided they serve nonprofits and meet certain other requirements. The NAIC continues to raise concerns and provided information on the regulatory authorities (particularly non-domiciliary state authorities) that would be preempted by such an expansion.

Ms. Stringer said that in February, the House passed the SAFE Banking Act as part of the America COMPETES Act to 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.

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

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Draft: 3/25/22

Cannabis Insurance (C) Working Group
Virtual Meeting (*in lieu of meeting at the 2022 Spring National Meeting*)
March 24, 2022

The Cannabis Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met March 24, 2022. The following Working Group members participated: Ricardo Lara, Chair, represented by Melerie Michael (CA); Michael Conway, Vice Chair, represented by Peg Brown (CO); Jennifer Bruce (AR); Angela King (DC); Christina Miller (DE); C.J. Metcalf (IL); Marlene Caride represented by Randall Currier (NJ); Gennady Stolyarov (NV); Raven Collins (OR); Sebastian Conforto (PA); Elizabeth Kelleher Dwyer represented by Beth Vollucci (RI); Isabelle Turpin Keiser (VT); and Michael Walker (WA).

1. Adopted its 2021 Fall National Meeting Minutes

The Working Group met Dec. 1, 2021, and took the following action: 1) adopted its Oct. 21, 2021, minutes; 2) received a status report on the drafting of the updated *Understanding the Market for Cannabis Insurance* white paper; 3) discussed the potential to collaborate with the Producer Licensing (D) Task Force; 4) heard a presentation from the University of Colorado on emerging scientific issues in the cannabis space; and 5) heard a presentation from the Cannabis Regulators Association (CANNRA) on cannabis policy and regulation trends.

Mr. Currier made a motion, seconded by Ms. Brown, to adopt the Working Group's Dec. 1, 2021, minutes (*see NAIC Proceedings – Fall 2021, Property and Casualty Insurance (C) Committee, Attachment Two*). The motion passed unanimously.

2. Heard a Presentation on the State of the Union in the Cannabis Insurance Industry

Erich Schutz (Jencap Specialty Insurance Services) stated that the cannabis space is experiencing massive growth, with sales expected to exceed \$30 billion in 2022. There is a wide breadth of cannabis insurance products, but depth is an issue. For instance, there are only a few carriers writing cyber coverage. Putting together a \$75 million property tower for a single location is not uncommon, but it is very difficult to do. Some carriers do not offer high enough limits on equipment breakdown. Workers' compensation and auto coverage vary by state. Michigan and Massachusetts are good examples of states that have very robust assigned risk pools for both coverages. Other states do not have as many options. For example, auto placement in California is difficult, expensive, and often has coverage gaps. The reinsurance marketplace is limited in the cannabis space. There are approximately eight A-rated package markets writing leaf touching cannabis coverage currently supported by only two to three reinsurers of that population. Several of the markets are very conservative with catastrophe wind and will put a named source storm exclusion on any property policy written anywhere on the eastern seaboard. It is a big issue because this exclusion will apply to properties that are 150 miles inland from the coast. Parametric insurance is the only coverage available for outdoor crop, which is not practical or cost prohibitive. Federal outdoor crop insurance will not include marijuana until it is federally legalized or decriminalized. The market has not responded yet to the need for multiple coverages to be written by one market. For delivery-only risk, different markets will write the liability and products coverages. Likewise, coverages for premises (social) consumption are usually broken up among more than one carrier. The market for directors and officers' coverage has doubled in capacity over the last 18 months to approximately 12 players. However, this does not address the needs of the many small mom and pop growers who need more robust and affordable liability coverages. Additionally, many of the smaller operations do not take up coverages unless it is mandated. Michigan has a law that all cannabis license holders must have \$100,000 of product liability coverage with no exclusions. If the licensee operates in both the recreation and medical cannabis space, then they must have \$100,000 for each. A specific carrier began offering a policy that

specified \$100,000 had no exclusions to meet this need. The dram shop law, passed in the last year, states that a person is financially responsible for any bodily injury or property damage they incur while consuming cannabis. The law stipulates the coverage must be on admitted paper, which is limited at best.

Jodi Green (Miller Nash LLP) stated that the 2018 Farm Bill removed hemp, defined as cannabis and derivatives of cannabis with extremely low concentrations of the psychoactive compound delta-9-tetrahydrocannabinol (THC) (no more than 0.3% THC), from the definition of marijuana in the Controlled Substances Act (CSA). This created nuances that led to the development of an additional gray market for minor cannabinoids such as delta-8 and delta-10. Cannabinoids are naturally occurring in very small quantities in the plant. They are created by converting cannabidiol (CBD) isolate and distillate into delta-8 or delta-10. Companies are creating minor cannabinoids because they have psychoactive affects and present a way to bypass federal law. Some state jurisdictions have banned these compounds entirely, and others have not addressed it. This inconsistent legal standing has created confusion among companies as to how these products can or cannot be sold.

The industry is maturing, with medical cannabis legal in 39 states and adult-use cannabis legal in 19 states. There are several federal bills pending that are attempting to fully legalize marijuana. The Secure and Fair Enforcement (SAFE) Banking Act of 2021 is attempting to create insurance regulations that will insulate insurance providers from federal prosecution. These federal bills are unlikely to pass this year, but there will be new states passing medical or recreational-use marijuana legislation. Regulations vary by state and locality, which makes it difficult for operators to comply with regulations and ties into carriers' reluctance to offer coverage in the cannabis space. As the cannabis industry has matured, companies have felt safer to enforce their right under state law. This has led to more litigation. There have been many corporate governance lawsuits. Product liability lawsuits may come to the forefront given the numerous state product recalls. The largest product liability claims have come from a handful of lawsuits against Pure Leaf for mixing up their CBD and THC products, which resulted in consumers unknowingly consuming psychoactive products. This highlights the importance of liability coverage and adequate risk management in the industry. There have also been several employment lawsuits related to employee pay for time spent dining, golfing, or changing clothing. This highlights the need for more education on compliance protocols within the industry. There has been an uptick in cyber claims over the past year related to the collection and storage of customer information in the cloud. Rising risks from wildfires in places such as California and Colorado highlight the need for coverage of water, fire, and smoke damage. There have been significant theft issues, especially in Washington and California with armed robberies. There have been intellectual property lawsuits involving copyright or trademark infringement of products that are being sold. For instance, there were edibles resembling Skittles or other candies around Halloween that created concern for children's safety. Environmental claims arise from using different solvents, chemicals, and pesticides in crop production. There have also been lawsuits related to California Prop 65, which requires companies to disclose the levels of certain harmful chemicals inherent in the product on its label.

Carriers are now paying claims, unlike five years earlier when many denied coverages. For instance, Hannover paid a couple claims in excess of \$1 million. The health hazard exclusion is highly problematic. Carriers have sought to deny coverage for bodily injury and other claims based on this exclusion. Carriers also deny based on cannabis exclusions. There should be a carve-out on policies with these exclusions for companies that are operating in compliance with state law. Claims are frequently denied based on protective safeguard requirements, such as a certain number of cameras. There is not an issue with the amount of coverage available in the market but with the quality of the coverage. Carriers need to be educated that the minimum limits available under state law are designated for licensing requirements and are not meant to be what companies should be getting. There have been several lawsuits involving manufacturers and malfunctioning vaping products where the battery exploded and caused injury. Yet, one of the biggest failures throughout the cannabis industry is the continued lack of products coverage. Broker education is needed on this.

Ms. Brown asked what Mr. Schutz has heard about the homeowners residual market, as Colorado has recently heard about issues with the homeowners Fair Access to Insurance Requirements (FAIR) plans excluding marijuana. Mr. Schutz said he has seen this occurring in the Massachusetts risk pools, as well as the residual markets. This is a large concern, as residual markets are the markets of last resort.

Ms. Michael asked Ms. Green to elaborate on why she is not optimistic about the passing of a federal bill this year. Ms. Green stated that her views reflect that most pending bills are just iterations of earlier bills. The cannabis industry itself has not fully supported any one bill, as it is fragmented in terms of supporting piecemeal or wholistic legislation. Mr. Schutz stated that the political climate is not conducive to a bill passing in part due to the focus on Ukraine.

Mr. Currier asked for more information on the named storm exclusions and what could be done to create a reinsurance market short of federal legalization. Mr. Schutz stated that there is a limited pool of reinsurers. Education and advocacy are the best path forward until federal legalization. Brokers and carriers need to understand how well built the risk profiles are of the insureds who are in compliance with the law but are rated as if they are a higher risk because of the negative perception of the cannabis industry.

Ms. Michael asked what led to the doubling of directors and officers (D&O) coverage over the last year. Mr. Schutz said it's a social equity issue. Most cannabis companies are either of a size they don't need this coverage or they are in greater need of other coverages. However, carriers only heard from the people with deep pockets sitting on corporate boards about needing this coverage. Ms. Green said she agreed that the large corporate companies were pushing for this and it's not helpful to small operators lacking basic coverage because its too costly.

3. Heard a Report on Federal Cannabis-Related Legislative Activities from NAIC Staff

Brooke Stringer (NAIC) stated that the NAIC is on record supporting both the SAFE Banking Act and the Clarifying Law Around Insurance of Marijuana (CLAIM) Act. The U.S. House of Representatives (House) passed the SAFE Banking Act last month for the sixth time on a bipartisan basis. It was added as an amendment to the American Competitiveness Of a More Productive Emerging Tech Economy Act (COMPETE) Act. Congressman Ed Perlmutter (D-CO) has been a strong supporter and advocate on this legislation for the SAFE Banking Act and will soon be retiring. U.S. Speaker of the House Nancy Pelosi has promised to advocate for legislation when the House conferences with the U.S. Senate (Senate) because the Senate has passed the COMPETE Act without the SAFE Banking Act in it. However, both leaders of the Senate do not support the SAFE Banking Act for assorted reasons. The SAFE Banking Act is not likely to pass because there is concern that a piecemeal approach will not be sufficient to address the issues.

4. Discussed its 2022 Work Plan

Ms. Michael stated that there would not be time to discuss its 2022 work plan. She requested that feedback on the plan be sent to NAIC staff. The work plan includes monitoring cannabis-related federal legislation, finishing updates on and moving for adoption of the *Understanding the Market for Cannabis Insurance* white paper by the Fall National Meeting, and hearing presentations and panel discussions on emerging issues.

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

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

Draft: 4/12/22

Catastrophe Insurance (C) Working Group
and the NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group
Kansas City, Missouri
April 4, 2022

The Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met in joint session with the NAIC/FEMA (C) Advisory Group of the Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee in Kansas City, MO, April 4, 2022. The following Working Group members participated: David Altmaier, Chair, and Susanne Murphy (FL); Mike Causey, Vice Chair, represented by Tracy Biehn (NC); Brian Powell (AL); Alan McClain (AR); Lucy Jabourian (CA); George Bradner and Wanchin Chou (CT); Travis Grassel (IA); Shannon Whalen (IL); Julie Holmes (KS); Matthew Mancini (MA); Joy Hatchette (MD); Jo LeDuc (MO); Mike Chaney (MS); Tom Botsko (OH); Glen Mulready (OK); Brian Fordham and Trisha Goldsmith (OR); David Buono, Shannen Logue, and Katie Merritt (PA); Alexander S. Adams Vega (PR); Stephanie Cope (TN); Mark Worman (TX); Brian Welch (WA); and Allan L. McVey (WV). The following Advisory Group members participated: Glen Mulready, Chair (OK); Carter Lawrence, Vice Chair, represented by Stephanie Cope (TN); Brian Powell (AL); Lucy Jabourian (CA); George Bradner and Wanchin Chou (CT); Travis Grassel (IA); Amy L. Bearn (IN); Julie Holmes (KS); Joy Hatchette (MD); Jo LeDuc (MO); Brian Fordham and Trisha Goldsmith (OR); Marly Santoro (VA); Brian Welch (WA); and Allan L. McVey (WV).

1. Adopted the Working Group's and Advisory Group's Minutes

Mr. Botsko made a motion, seconded by Ms. Cope, to adopt the Working Group's March 4 minutes (Attachment Two-A) and the Advisory Group's March 25 minutes (Attachment Two-B). The motion passed unanimously.

2. Heard an Update on Federal Legislation

Patrick Celestine (NAIC) said the National Flood Insurance Program (NFIP) is operating under an extension through Sept. 30, and the NAIC continues to reiterate support for a long-term reauthorization.

While there has not been much progress on a long-term reauthorization, there have been some reauthorization bills introduced. The NFIP Reauthorization and Reform Act of 2021 has been introduced in both the U.S. House of Representatives (House) and the U.S. Senate (Senate). This bill would allow for a five-year reauthorization, cap annual rate increases at 9% (compared to the current 18%), cap the Write Your Own (WYO) compensation at 22.46% of written premiums (versus the current 30%), and require each agent that sells NFIP policies to complete a three-hour continuing education (CE) course every two years. The CE course would need to be approved by the insurance commissioner in the state where the agent is a legal resident.

Mr. Celestine said the Continuous Coverage for Flood Insurance Act has also been introduced in both the House and the Senate. This bill would clarify that a flood insurance policy purchased in the private market would count as "continuous coverage" under the terms of the NFIP. Therefore, policyholders could return to the NFIP without losing any previous subsidy.

Mr. Celestine said FEMA began phase two of its implementation of Risk Rating 2.0. Policies renewing on or after April 1 will be issued under Risk Rating 2.0. A bipartisan group of coastal senators unsuccessfully advocated postponing the implementation of Risk Rating 2.0, warning FEMA about the impact of premium increases. This will remain a key issue for the reauthorization of the NFIP.

Mr. Celestine said the Flood Insurance Pricing Transparency Act was introduced in the Senate. This bill would require FEMA to publish the formulas used to calculate mitigation credits for policyholders under Risk Rating 2.0. The bill would also require FEMA to release a toolkit that could be used to estimate the cost of insurance for new construction, without compromising proprietary information.

Lastly, Mr. Celestine said the Senate Committee on Homeland Security and Governmental Affairs approved the Community Disaster Resilience Zones Act of 2022, advancing it to the full Senate. Chairman Gary C. Peters (D-MI) and Ranking Member Rob Portman (R-OH) sponsored the bill. The Reinsurance Association of America (RAA) has also been a strong proponent of this bill. The bill would amend the Stafford Disaster Relief and Emergency Assistance Act to make permanent the National Risk Index, or a similar tool, and utilize its data to identify and designate community disaster resilience zone communities that are the most at risk to natural hazards. This would allow FEMA to identify what communities are most in need of assistance for mitigation projects.

Commissioner Mulready said a few weeks ago, Oklahoma had the privilege of hosting David Maurstad (FEMA) and the director of FEMA Region 6 in Tulsa, OK. He said Tulsa was one of only two communities in the country with the highest NFIP ratings based on a community rating system on a city's stormwater management.

3. Discussed the *Catastrophe Computer Modeling Handbook* Updates

Commissioner Altmaier said the Working Group is charged with updating the *Catastrophe Computer Modeling Handbook* (Handbook). He said a drafting group consisting of several state insurance regulators has been formed, and the drafting group met last week to discuss a work plan for updating the Handbook. He said future drafting group calls will include interested parties that have expressed interest in attending these calls. He asked NAIC staff to provide and update of the drafting group's meeting last week.

Sara Robben (NAIC) said the purpose of the Handbook is to serve as a guidebook for state insurance regulators to use. The drafting group discussed including sections in the Handbook that will encompass guidance for state insurance regulators in the areas of rates, forms, legal, etc. The intention of the Handbook is to steer away from theoretical information and provide guidelines for state insurance regulators. It is expected that the Handbook will cross-reference information with more technical information that can be found in the Society of Actuaries (SOA) documentation.

Ms. Robben said the drafting group also plans to send a survey to states, consisting of easy to answer questions regarding bulletins and regulations states have in place regarding catastrophe models. The drafting group hopes to put this information in the form of a chart with links to the actual document for easy reference.

Ms. Robben said anyone that has not yet joined the drafting group should reach out to her to be added to the list.

4. Heard an Update from the Iowa Insurance Division Regarding Recent Tornadoes

Mr. Grassel said Iowa has seen numerous catastrophic events in the last few years. He said these events included derechos, flooding, and severe convective storm activity most recently that caused some destructive tornadoes. He said these types of events appear to be happening with greater frequency.

Mr. Grassel said March was a turbulent month for many states. On March 5, there were at least 13 tornadoes reported, and one area of activity included an EF-4 strength tornado lasting approximately 90 minutes and stretching for approximately 70 miles. Mr. Grassel said the tornadoes resulted in at least seven fatalities and caused severe property damage. He said tornado wind speeds were reported to be as high as 170 miles per hour. Following the March 5 tornadoes, a snowstorm that produced three to five inches of snow occurred, which

hindered recovery efforts in the short-term. Mr. Grassel said Iowa's Deputy Insurance Commissioner, Jared Kirby, experienced a direct hit to his home, causing extensive damage.

Mr. Grassel said hoping for the best, while preparing for the worst will ensure resiliency and safety when devastation strikes. He said building structurally strong homes and buildings or retrofitting homes and buildings make them more resistant to damage caused by severe convective storm activity. Wind resistant structures include a masonry home or reinforced building materials, including entrance doors, windows, roof, and garage doors. Stronger structures are more likely to be resilient during a severe wind event.

Mr. Grassel said the following items are important to do prior to a disaster: 1) know the safe space in your home; 2) make sure you have appropriate insurance from a reputable insurer; 3) periodically evaluate your insurance products and the coverage limits in your insurance policies; 4) read your insurance policy and speak with an insurance company representative or insurance agent with questions; and 5) annually record a home inventory to ensure proof of ownership for your belongings.

Amy Bach (United Policyholders) asked Mr. Grassel what type of deductibles they are seeing in Iowa regarding wind. Mr. Grassel said he does not have information on this specific event, but in the rate filings, they see higher deductibles and percentage deductibles for wind events. He said the deductibles have a range of \$500 to \$2,500.

5. Heard and Update from the TDCI Regarding Recent Catastrophic Events

Ms. Cope said flooding continues to be one of the largest issues for Tennessee consumers. She said the Tennessee Department of Commerce and Insurance (TDCI) has focused on education and outreach efforts regarding flooding in the past year.

Ms. Cope said the TDCI has an internal team that serves to process consumer complaints and educate communities. She said the team actively meets with local emergency planning committees in various counties throughout the state. Ms. Cope said the TDCI wants to ensure consumers understand the necessity of proper insurance coverage.

Ms. Cope said in the wake of the deadly Waverly floods, the TDCI set up disaster recovery centers in the affected areas. She said the TDCI wanted to be available for consumers on the spot, so they had what they needed when they needed it the most. She said due to the increased severity of natural catastrophes over the past few years, two counties became NFIP communities. She said the TDCI hopes this will encourage consumers to get the coverage they need.

Ms. Cope said after the tornadoes of 2020, the TDCI set up five claim centers across the state and requested that the top 10 insurance writers bring their catastrophe teams to handle claims on-site for their policyholders.

Ms. Cope said following the December 2021 tornadoes, the TDCI attended town hall meetings in Humphreys and Dresden counties. She said the TDCI consistently makes itself available to consumers, so consumers understand they have the support of the TDCI.

Ms. Cope said most recently, the TDCI responded to the wildfires near Gatlinburg, TN. She said over 100 structures were damaged, and more than 11,000 people were evacuated. As a result, the TDCI requested that insurers send representatives to the county fairgrounds to assist with on-site claims. Ms. Cope said Commissioner Lawrence and the Consumer Insurance Services team were at the site to help consumers with any claims and claims processing questions.

Ms. Cope said the TDCI believes in the power of educating consumers so they can make the best decisions for themselves and their families.

6. Heard and Overview of FEMA Regional Meetings

Commissioner Mulready said state insurance regulators have had several workshops with FEMA. The most recent workshop was held last year in a virtual format with FEMA Regions 8, 9, and 10. He said he has been told that state insurance regulators have enhanced their relationships with their FEMA colleagues as a result of these workshops.

Commissioner Mulready said FEMA Region 4 formed a working group following its FEMA workshop. This working group meets every other month with its FEMA colleagues to discuss issues related to disasters and make sure they are better prepared in advance of a disaster.

Commissioner Mulready said the Oklahoma Insurance Department will be hosting the FEMA Region 6 workshop on May 3 and May 4 in Oklahoma City, and invitations went out last week. He said attendees will be touring the National Weather Center in Norman, OK, on the evening of May 3.

Commissioner Mulready said any states wanting to conduct a workshop in their FEMA region could reach out to him or Aaron Brandenburg (NAIC).

7. Received an Update on the NAIC Catastrophe Resource Center

Ms. Robben said she would be reaching out to the departments of insurance (DOIs) to be sure the names on the catastrophe contact list are current. She asked states about what types of information are not on the web page that would be helpful to add. No one had any immediate comments. Commissioner Altmaier suggested that the NAIC send out a survey to Working Group and Advisory Group members to better meet the needs of the state insurance regulators.

Mr. Bradner said the Northeast Zone is reconvening a group of catastrophe contacts within each of the northeast state DOIs. He said they would be meeting sometime in April or May. He said in the past, some of the things they discussed included what is happening in each state regarding items such as hurricane deductibles, policy language changes, etc. He said if a catastrophic event approaches the Northeast, the group can hold a call to discuss what each state is doing to prepare for the event.

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

SharePoint/NAIC Support Staff Hub/Member Meetings/2022 Spring National Meeting/Committee Meetings/PROPERTY and CASUALTY INS (C) COMMITTEE/Catastrophe Ins (C) WG/Agendas and Minutes/04 CatFEMA Minutes.docx

Draft: 3/11/22

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

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

1. Adopted its 2021 Fall National Meeting Minutes

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

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

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

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

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

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

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

- A state indicated that it works with other states in the Northeast Zone.

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

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

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

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

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

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

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

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

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

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

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

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

3. Discussed Next Steps Regarding the *Catastrophe Modeling Handbook*

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

Currently, the Handbook includes the following sections:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SharePoint/Spring National Meeting/Committee Meetings/PROPERTY and CASUALTY INS (C) COMMITTEE/Catastrophe Ins (C) WG/0304
CatWG Minutes.docx

Draft: 4/1/22

NAIC/Federal Emergency Management Agency (FEMA) (C) Advisory Group
Virtual Meeting
March 25, 2022

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

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

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

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

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

2. Heard a Presentation Related to FEMA's CRS

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

Mr. Lesser said participation in the CRS is voluntary. There are about 22,500 communities in the NFIP nationwide, and about 1,500 communities are in the CRS. He said those 1,500 communities include the highest risk flood communities, leading to about 75% of all NFIP policies being in CRS communities. He said the *CRS Coordinator's Manual* describes all aspects of the community's participation, including how many points communities can

receive in the many different floodplain management activities. The goals of the program are to reduce and avoid flood damage to insurable property, strengthen and support certain insurance aspects of the NFIP, and foster comprehensive floodplain management.

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

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

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

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

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

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

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

3. Heard an Update on the Spring National Meeting

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

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

SharePoint/Spring National Meeting/Committee Meetings/PROPERTY and CASUALTY INS (C) COMMITTEE/Catastrophe Ins (C) WG/NAIC-FEMA (C) Advisory Group/0325 NAIC FEMA Minutes.docx