PROPERTY AND CASUALTY INSURANCE (C) COMMITTEE

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Draft: 12/18/19

Property and Casualty Insurance (C) Committee
Austin, Texas
December 9, 2019

The Property and Casualty Insurance (C) Committee met in Austin, TX, Aug. 5, 2019. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair, and Matt Gendron (RI); Scott A. White, Vice Chair, and Don Beatty (VA); Jim L. Ridling represented by Sheila Travis (AL); Andrew N. Mais and George Bradner (CT); David Altmaier (FL); Robert H. Muriel (IL); James J. Donelon represented by Warren Byrd (LA); Al Redmer Jr. and Robert Baron (MD); Marlene Caride (NJ); John G. Franchini and Anna Krylova (NM); Glen Mulready (OK); Larry Deiter (SD); Mark Afable represented by Rebecca Rebholz (WI); and James A. Dodrill represented by Gregory Elam (WV). Also participating was: Travis Grassel (IA).

1. Adopted its Nov. 18 Minutes

The Committee met Nov. 18 and took the following action: 1) adopted its Sept. 10 minutes, which included adoption of its Summer National Meeting minutes and adoption of documents related to the private flood insurance data call; 2) adopted additional documents related to the private flood insurance data call, including making the data publicly available; 3) discussed proposed blanks changes related to private flood insurance; and 4) discussed the upcoming Fall National Meeting.

Commissioner Dieter made a motion, seconded by Commissioner Caride, to adopt the Committee's Nov. 18 minutes (Attachment One). The motion passed unanimously.

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

Commissioner Altmaier made a motion, seconded by Mr. Byrd, to adopt the following task force and working group reports: the Casualty Actuarial and Statistical (C) Task Force; the Surplus Lines (C) Task Force; the Title Insurance (C) Task Force; the Workers' Compensation (C) Task Force; the Cannabis Insurance (C) Working Group (Attachment Two); the Catastrophe Insurance (C) Working Group (Attachment Three); the Climate Risk and Resilience (C) Working Group (Attachment Four); the Lender-Placed Insurance Model Act (C) Working Group; the Pet Insurance (C) Working Group (Attachment Five); the Terrorism Insurance Implementation (C) Working Group (Attachment Six); and the Transparency and Readability of Consumer Information (C) Working Group. The motion passed unanimously.

3. Adopted an Extension for Revisions to the Proposed Real Property Lender-Placed Insurance Model Act

Commissioner Altmaier made a motion, seconded by Commissioner Caride, to adopt an extension to the 2020 Spring National Meeting for revisions to the proposed Real Property Lender-Placed Insurance Model Act. The motion passed unanimously.

4. Adopted its 2020 Charges

Commissioner Caride made a motion, seconded by Director Dieter, to adopt the Committee's 2020 charges (Attachment Seven). The motion passed unanimously.

5. Adopted a Blanks Request Regarding Private Flood Insurance

Superintendent Dwyer said the Committee discussed during its Nov. 18 conference call proposed revisions to the annual statement to include private flood insurance data. She said the Committee has drafted a proposal to the Blanks (E) Working Group that requests: 1) a new supplement that will separate residential from commercial private flood, as well as capture standalone/endorsement and first dollar/excess policy information for private flood policies; and 2) revisions to the Credit Insurance Experience Exhibit to collect lender-placed flood coverages including a split between first dollar and excess coverages.

Superintendent Dwyer said the proposed annual statement changes would not take effect until 2021, collecting 2020 data. She noted that states are currently in the process of issuing a data call that will collect 2018 private flood data early next year and 2019 data later in 2020.

Commissioner Mais made a motion, seconded by Commissioner Altmaier, to adopt the blanks request related to private flood insurance (Attachment Eight). The motion passed unanimously.

6. Adopted *Considerations for State Insurance Regulators in Building the Private Flood Insurance Market*

Mr. Bradner said a drafting group established by the Catastrophe Insurance (C) Working Group began working last year on a document to include strategies to encourage the development of the private flood insurance market. He said the drafting group sent its draft to the Catastrophe Insurance (C) Working Group on July 18, and the Working Group received comments through Aug. 22. He said changes were made to the document to reflect the comments received. He said comments were also received from the Reinsurance Association of America (RAA) on Dec. 4 and from the National Association of Mutual Insurance Companies (NAMIC) on Dec. 7.

Mr. Bradner said the document recognizes that the Property and Casualty Insurance (C) Committee has already begun to take steps to enhance the collection of private flood insurance data, including collecting more granular data through the annual statement and the Credit Insurance Experience Exhibit, as well as from the surplus lines market through the Surplus Lines (C) Working Group. He said the document also recognizes that a private flood insurance line will be implemented for the Market Conduct Annual Statement (MCAS). The document presents other considerations for the Property and Casualty Insurance (C) Committee, including:

- Considering ways to incorporate a conforming conditions clause in the form approval process.
- Referring state law conflicts relating to statute of limitations and cancellation/renewal provisions to the Government Relations (EX) Leadership Council to resolve at the federal level.

Mr. Bradner said the majority of the document provides state insurance regulators with concrete actions that can be or have been taken to assist with the development of the burgeoning private insurance market for residential flood insurance. He said the actions are split into several categories, including: 1) legislative and regulatory changes such as supporting private flood insurance legislation and products and tailoring rate and form requirements; 2) consumer information, such as consumer outreach and collecting residential private flood insurance data; and 3) agent and lender actions, such as implementing specific continuing education (CE) requirements for producers and conducting agent and lender education.

Mr. Bradner said the document also includes an appendix that would be more valuable with the addition of more state examples of actions states have taken. He recommended the Committee make the appendix a living document that can be updated on an ongoing basis.

Aaron Brandenburg (NAIC) said RAA had suggested adding the following paragraph to page 19 of the document:

> To avoid unintended consequences policymakers interested in facilitating a private flood insurance market should familiarize themselves with the requirements for residential customers with a federally backed mortgage to purchase flood insurance coverage and with the existing private insurance markets that provide coverage for flood damage, including coverage provided under: (a) commercial policies, (b) residential policies providing coverage in excess of required flood insurance coverage limits, (c) residential policies for those not mandated to purchase flood insurance, and (d) comprehensive auto policies. With such knowledge, legislative and regulatory changes can be tailored to accomplish the policy objectives without adversely impacting existing flood insurance markets.

Ms. Nelson asked if the word "policies" in "comprehensive auto policies" should read "coverages." Dennis Burke (RAA) agreed with this change.

Mr. Brandenburg said NAMIC suggested adding language to page 21 to read:

> In Florida, the statute requires a 10-day cancellation for non-payment of premium. In Florida, to comply with the flood statute *as other than Flexible or Supplement flood insurance*, the insurer would have to give at least 45 days.

Commissioner Altmaier said he does not have a problem with this change. Mr. Bradner suggested the word "notice" be added after the phrase "at least 45 days."

Mr. Brandenburg said RAA recommended moving the placement of a paragraph on page 22 and including a sentence:

> As a result, any flood insurance policy covering such properties is not required to be as broad as the NFIP policy.

Mr. Brandenburg said each of these changes is reflected in the current document before the Committee. Mr. Bradner made a motion, seconded by Commissioner Caride, to accept the edits recommended by RAA and NAMIC, including the additional edits from Ms. Nelson and Mr. Bradner. The motion was adopted unanimously.

Mr. Bradner made a motion, seconded by Commissioner Caride, to adopt the newly revised *Considerations for State Insurance Regulators in Building the Private Flood Insurance Market* (Attachment Nine) and keep the Appendix as a living document that can be updated with state activities. The motion passed unanimously.

7. Heard a Presentation from SBP on the Work it Does to Promote Resiliency and Mitigation Among Homeowners Pre- and Post-Disaster

Deirdre Manna (Zurich) said Zurich recognizes that flooding affects more people than any other disaster. She said in 2013, Zurich started a flood resilience program to link academic insights to humanitarian efforts and Zurich's expertise. She said Zurich creates post-event reviews to shift the focus from post-disaster response to community resilience. She said $1 spent in prevention can save $5 in future losses. She said Zurich has conducted 16 post-event catastrophe reviews. In 2020, Zurich will launch a review of the 2017–2018 California wildfires. Ms. Manna said Zurich has collaborated with SBP in educating communities about disasters.

Mark Smith (SBP) explained SBP is a nonprofit founded in St. Bernard Parish, LA, after Hurricane Katrina. SBP has since built 18 homes in eight states and has operations in those states plus Puerto Rico and the Bahamas. He said the best way to help families is to increase resiliency before disasters and improve preparedness.

Mr. Smith said SBP recognizes that disaster survivors have breaking points determined by the amount of time recovery takes, the predictability of the recovery, and the vertical and horizontal resilience of each survivor. He said SBP's mission is to prevent survivors from reaching their breaking point by shrinking the time between disaster and recovery. Mr. Smith said SBP strives to improve preparedness and provide tools before a disaster occurs. He said SBP's strategic interventions have to do with building, sharing, preparing, advising and advocating. He said SBP prepares communities by identifying communities at high risk and advises governments about the best use of resources.

Mr. Smith said SBP partners with corporations such as Zurich to obtain additional resources in rebuilding homes. These corporate partnerships allow for the creation of disaster resilience and recovery labs, eLearning modules, government advisory and advocacy activities, and assisting communities with improving their Community Rating System score which can then improve the National Flood Insurance Program (NFIP) rates they receive.

Mr. Smith said SBP would like to partner with the NAIC before disasters to help communities better understand and mitigate risk ahead of disasters and partner after disasters to leverage SBP's turnkey educational and advocacy materials to help survivors recover more quickly after disasters.

Superintendent Dwyer said Director Raymond G. Farmer (SC) recommended SBP make this presentation, and South Carolina has partnered with SBP. Mr. Bradner said that he co-chairs a statewide long-term recovery task force that helps communities to prepare and recover from disasters and that he would like to work with SBP in identifying resiliency needs. He said his group would like to work with SBP in helping communities improve their Community Rating System scores. Mr. Smith said SBP often works with nonprofits in recovery programs. Superintendent Dwyer said the NAIC's Northeastern Zone works on these issues, and she asked Mr. Bradner to leverage SBP in the work the Zone conducts.

8. Heard a Presentation Regarding Underinsurance Issues from the APCIA and NAMIC

Superintendent Dwyer reminded the Committee that Amy Bach (United Policyholders) spoke to the Committee during the Summer National Meeting about the problem of underinsurance. Dave Snyder (American Property Casualty Insurance Association—APCIA) said he believes the top unresolved property/casualty (P/C) insurance issue is natural catastrophe risk and resiliency. He commended the NAIC for making this a top priority. He agreed with many of Ms. Bach's points, including that more Americans need to be protected from natural disasters and that many property owners do not have enough coverage on their home. He said 75% of the losses from Hurricane Harvey were uninsured. He stressed property valuation is the responsibility of the property owner working with the insurer. Hs said the most significant protection gap is with flood damage.

Mr. Snyder said property valuation is difficult and is not the same as market value. He said actual cash value is the standard, but most policies are replacement cost. Insurers often offer extended replacement cost that provides up to an additional 25% in most cases to help address the underinsurance issues. He said this does not help if there are additions such as renovations or significant changes to the home. He said revised building codes also add to reconstruction costs.

Mr. Snyder said most insurers include inflation guard coverage to address increasing materials and labor costs. He said many insurers ask policyholders annually about substantial structural changes. Insurers also conduct insurance-to-value campaigns. He said insurers and policyholders need to work together to establish the correct value. He said balance is the key. Too much coverage creates a moral hazard, and too little coverage creates underinsurance issues.

Mr. Snyder said flooding is the most common disaster in the U.S. and can occur almost anywhere in the country. He said the NFIP has just more than 5 million policyholders. He noted CoreLogic estimates that 29 million homes have moderate to severe risk of flood loss. He said the biggest question for agents is still whether consumers have to buy flood insurance. People think of it as a binary decision; they are either required to purchase flood insurance or they are not. He said it should be stressed that where it rains, it can flood.

Mr. Snyder said the number of nonrenewals has crept up in areas with wildfire losses. He said this happens with other perils until the market is able to recover. He said development is often allowed where it should not be.

In terms of what the industry is doing, Mr. Snyder said the industry is supportive of NFIP Risk Rating 2.0, modernizing policy language, modernizing flood mapping, and the Federal Emergency Management Agency's (FEMA) moonshot goal of doubling flood insurance as well as consumer education. He said 98% of all counties have had a flooding event. He said APCIA has developed numerous educational materials and state and local mitigation programs.

Mr. Snyder stressed state insurance regulators should allow innovations such as revising anti-rebating laws and allowing parametric insurance. He said state insurance regulators should continue to help to develop the private flood insurance market, such as promoting ideas within the *Considerations for State Insurance Regulators in Building the Private Flood Insurance Market*.

Cate Paolino (NAMIC) said several inputs can affect underinsurance, including market changes, input challenges and post-catastrophe surge. She said insurers and agents should provide communications regarding how to actively manage risk, including available products such as inflation guard protection options. She said as people improve their property, they need to share that information with insurers. Insurers often ask for additional information with a supplemental or renewal questionnaire. She said some individuals elect not to insure-to-value.

Ms. Paolino said rebuilding often costs more after a large catastrophe due to increases in labor, equipment and supplies. This demand surge can sometimes be 30% or higher. She said approximately 14 states have laws that prohibit policy limits from exceeding replaced cost estimates. She noted that over insurance should be avoided, as well as underinsurance.

Ms. Paolino said the industry wishes to work with state insurance regulators in encouraging the growth of the private flood insurance market. She said flood should be distinguished from property with respect to certain property regulations, such as weather-related loss limitations. She said the Build Strong Coalition was formed in 2011 to bring together a diverse group to respond to an increasing number of severe disasters. She said a primary focus of this group has been support of the federal Disaster Recovery Reform Act, which shifts the federal government approach to disaster recovery by incentivizing states to implement resiliency measures before natural disasters. She noted the Act provides monies to states and communities for pre-disaster mitigation measure. She said she would like to see state insurance regulators weigh in on the importance of mitigation efforts, especially improving building codes. NAMIC works with state legislators and others in promoting disaster mitigation and resiliency through a resiliency week.

Mr. Bradner said the International Residential Code (IRC) has upcoming building code changes that lower wind speed requirements because the code looks at historical averages of wind speeds. He is concerned that climate changes are not being considered. Mr. Snyder said this is a source of concern and that there is opportunity for state insurance regulators to advise others in state government about building codes and their effectiveness. He said the insurance industry also needs to provide information and advocacy. He said new houses often are not built to withstand fire. Mr. Bradner said he has worked with the construction industry on building codes, but state differences and lack of data make it difficult to get consensus. He said data is needed from the insurance industry to understand the effectiveness of mitigation steps.

Mr. Byrd said often repairs cost more to get up to code and that the insurer should have an incentive for the policyholder to take these steps to become a better risk. He wondered whether the insurer would pay some or all of these increased costs. Mr. Snyder said he would follow up on this issue. Commissioner Mulready said Oklahoma recently experienced record flooding. He said maps have changed in areas where banks communicate with the homeowners that flood insurance is no longer required. He asked if the insurance industry had worked with the American Bankers Association (ABA) on educating consumers about flood risks. Mr. Snyder said consumers often only consider whether the bank requires them to carry flood coverage. He said this decision-making process needs to change and that it will take work. He said research into communicating risks needs to continue. He said the insurance industry is trying to communicate these risks to policyholders. Superintendent Dwyer said she also supervises banks in Rhode Island and said there is a lack of understanding by lenders on floods, earthquakes and other perils. She said banks say they are at a competitive disadvantage if they encourage the purchase of additional insurance. Mr. Grassel said the key is pushing resiliency and mitigation efforts.

Superintendent Dwyer said she finds flood insurance to be difficult to buy if one is not required to purchase it. Ms. Paolino said she is hopeful the growth of the private flood insurance market will help in the purchase process. Tom Glassic (Wright National Flood Insurance Company) said it is becoming easier to purchase flood insurance, such as by going to the floodsmart.gov website. He said Write Your Own (WYO) companies and FEMA are working to make the flood policy look like other policies.

Mr. Bradner said states should think about how they can work more closely with the construction industry on mitigation steps, including sharing research conducted by the Insurance Institute for Business & Home Safety (IBHS). He said states should also work with the construction sector on obtaining data on mitigation efforts.

Superintendent Dwyer said she will ask California to speak at the Spring National Meeting to discuss its experience with wildfire risks.

9. Heard an Update on Crop Insurance

Dave Miller (U.S. Department of Agriculture—USDA) said the federal crop insurance program was established in 1938. He said the private sector delivers the program through 14 insurance companies through sales, loss adjustment and underwriting. He said the standard reinsurance agreement is provided through the USDA.

Mr. Miller said the USDA works with states to share information about the market behavior and financial stability of the insurers. He said the USDA has worked with individual states recently with companies cancelling policies and leaving gaps in the marketplace. USDA's compliance office has worked closely with state insurance regulators to deal with sales and rebating issues. He said the federal *Crop Insurance Handbook* was last updated in 2013 and should be looked at again based on new federal legislation. He also noted the NAIC's federal relations staff has worked with the USDA as federal legislation arises. He said state data is available on the USDA website.

Tom Zacharias (National Crop Insurance Services—NCIS) said NCIS provides a unique suite of services to the crop insurance industry ranging from actuarial and analytical support to the development of crop loss adjustment standards and industry-wide training for both company staff and industry loss adjusters. He said NCIS is the only entity that fully supports both the state-regulated and federally regulated lines of the crop insurance business.

Dean Strasser (NCIS) noted the federal crop insurance program requires that adjusters be licensed in the state in which they service claims in order to be certified under the Standard Reinsurance Agreement (SRA) between the USDA Risk Management Agency (RMA) and the Approved Insurance Providers (AIPs). However, if a state's licensing requirements are not crop insurance-specific or the state has no loss adjuster licensing requirements, RMA requires completion of a proficiency program to be certified. (Completing the Crop Adjuster Proficiency Program [CAPP] satisfies this requirement.) Several states that have crop adjuster license requirements do recognize CAPP as meeting their exam requirements for licensure.

Mr. Zacharias said NCIS files loss costs with states. He said crop-hail insurance has about $1 billion in premium, while federal crop insurance premiums are about $10 billion. Preventative planting claims were about $4 billion in 2019.

Director Ramge said it is important to maintain the working relationships with USDA and NCIS when issues arise with crop insurance companies. Director Deiter said there have not been many issues in crop insurance lately, but he appreciates the presentation. Superintendent Dwyer said she would like to continue these updates on an annual basis.

10. Heard an Update on the Auto Insurance Report

Superintendent Dwyer reported that state insurance regulators are currently reviewing private passenger auto state exhibits created from auto data collected from statistical agents. She said the Committee plans to release the private passenger auto report on its website in the near future.

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

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Property and Casualty Insurance (C) Committee
Conference Call
November 18, 2019

The Property and Casualty Insurance (C) Committee met via conference call Nov. 18, 2019. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Scott A. White, Vice Chair (VA); Jim L. Ridling (AL); Ricardo Lara represented by Ken Allen (CA); Andrew N. Mais represented by George Bradner (CT); David Altmaier and Robert Lee (FL); James J. Donelon (LA); Marlene Caride represented by Carl Sornson (NJ); John G. Franchini represented by Ashley Hernandez (NM); Glen Mulready (OK); Larry Deiter represented by Jill Kruger (SD); and Mark Afable (WI).

1. Adopted its Sept. 10 Conference Call Minutes

The Committee met Sept. 10 and took the following action: 1) adopted its Summer National Meeting minutes; and 2) adopted a data call template to collect private flood data.

Commissioner Afable made a motion, seconded by Commissioner Donelon, to adopt the Committee's Sept. 10 minutes (Attachment One-A). The motion passed unanimously.

2. Adopted Documents Related to the Private Flood Insurance Data Call

Superintendent Dwyer said the Committee adopted a private flood insurance data call template on Sept. 10 contingent on changes to make the data elements consistent with the financial annual statement and the Market Conduct Annual Statement (MCAS). She said NAIC staff made those changes, and the template—along with information related to data checks and filing the data—was distributed. She said one of the main purposes for the data call and subsequent blanks revisions is for state insurance regulators, industry, consumers and others to have an accurate picture of the private flood insurance market, its growth and who the major carriers are. She noted that for data calls, states often collect data under their examination laws because the data needs to be kept confidential. She said data within the data call will mirror what will be collected in 2021 on the annual statement. Data collected on the annual statement will be publicly available as it normally is. Superintendent Dwyer said the data collected through the data call will be publicly available just as the data collected on the annual statement will be. She noted that to implement the data call, NAIC staff will be reaching out to all states asking them to indicate participation through a signed document.

Birny Birnbaum (Center for Economic Justice—CEJ) said the instructions say the data should be reported in a spreadsheet format, but later it lists input requirements referring to comma delimited format, which is a text format. Aaron Brandenburg (NAIC) said the instructions would be clarified.

Don Griffin (American Property Casualty Insurance Association—APCIA) asked why the data call would be public if state insurance regulators could just wait for the annual statement data to be submitted. Superintendent Dwyer said 2020 data on private flood insurance would not be collected on the annual statement until 2021. She also said what is currently collected on the annual statement does not split residential policies from commercial policies. She said state insurance regulators and others desire to know which companies are writing what sort of policies. Superintendent Dwyer noted that writers of commercial general liability policies that do not exclude flood coverage cannot be distinguished from companies writing residential flood coverage. Mr. Griffin said other lines of business, such as workers' compensation or stop loss products, are not separated between first dollar and excess.

Mr. Birnbaum said that flood insurance data is fundamentally different as it mixes commercial and residential coverages and that it is critical to distinguish primary from excess coverages in order to inform public policy issues. He said state insurance regulators should lead that discussion and they need to have the data to do so. He said the special data call just collects the annual statement data at an earlier time. Commissioner Donelon agreed with this and said state insurance regulators need to have residential policies separated out from commercial policies in order to inform public policy discussions. Superintendent Dwyer said that state insurance regulators are often asked who is writing what coverages and that currently they cannot answer that.

Commissioner Mulready made a motion, seconded by Commissioner White, to adopt the supplemental documentation related to the private flood data call. The motion passed unanimously.

3. Discussed Proposed Blanks Changes Related to Private Flood Insurance

Superintendent Dwyer said the Committee had previously distributed a proposal to collect private flood insurance data through a new annual statement supplement that would collect residential and commercial private flood insurance data and through revisions to the Credit Insurance Experience Exhibit that would collect lender-placed flood coverage data. She said comments were received on the proposed changes from the APCIA, the National Association of Mutual Insurers (NAMIC) and the CEJ.

Mr. Lee asked why first dollar and excess coverages would not be collected within the Credit Insurance Experience Exhibit. He said the National Flood Insurance Program (NFIP) has a separate program for lender-placed policies. Mr. Birnbaum said if flood is required and a policyholder is given a forced-placed policy, it is on a first dollar basis, but if a lender requires more than the maximum offered by the NFIP, there would also be force-placed excess coverage. He suggested that should be broken out on the Credit Insurance Experience Exhibit. Superintendent Dwyer said a revised version of the Exhibit would be distributed prior to the Fall National Meeting, at which time the Committee might consider adoption of the blanks proposal.

Mr. Griffin said he is concerned that collecting first dollar and excess coverages would require changes to the way companies collect data. He said he understands that state insurance regulators need to understand the market, but it will take a lot of time to report data in this manner. He said he does not see a need to determine primary from excess for lender-placed policies.

Mr. Birnbaum said lender-placed policies are usually written by the same insurer for primary and excess coverages, but this is not necessarily true in the voluntary market. He said there are likely different companies specializing in first dollar and excess coverages. He said a distinction is needed between first dollar and excess so that state insurance regulators can see who is writing the policies and whether there is different experience in the policies. He said the distinction between first dollar and excess is being made on the MCAS and in the surplus lines flood data collection. He also said the blanks process allows companies to have ample time to make changes so they can report the data. He said first dollar and excess will be written by companies on two different forms, so it should not be that difficult to report the data.

4. Discussed the Fall National Meeting

Superintendent Dwyer said during the Fall National Meeting, the Committee hopes to consider adoption of a document from the Catastrophe Insurance (C) Working Group that describes steps states can take to facilitate the growth of the private flood insurance market. She said the Committee will also consider adoption of its 2020 proposed charges. She said the Committee will continue a conversation from the Summer National Meeting on underinsurance by hearing from APCIA and NAMIC. She said the Committee will also hear from SBP, which is a nonprofit organization that will speak about its mission to prepare citizens prior to and following disasters with mitigation and resilience steps.

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

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Draft: 9/18/19

Property and Casualty Insurance (C) Committee
Conference Call
September 10, 2019

The Property and Casualty Insurance (C) Committee met via conference call Sept. 10, 2019. The following Committee members participated: Elizabeth Kelleher Dwyer, Chair (RI); Scott A. White, Vice Chair (VA); Jim L. Ridling (AL); Ricardo Lara represented by Ken Allen (CA); David Altmaier (FL); Robert H. Muriel represented by Reid McClintock (IL); James J. Donelon (LA); Marlene Caride represented by Carl Sornson (NJ); John G. Franchini represented by Anna Krylova (NM); Glen Mulready (OK); Larry Deiter represented by Dan Nelson (SD); and James A. Dodrill represented by Jamie Taylor (WV).

1. Adopted its Summer National Meeting Minutes

Commissioner Altmaier made a motion, seconded by Mr. Nelson, to adopt the Committee's Aug. 5 minutes (*see NAIC Proceedings – Summer 2019, Property and Casualty Insurance (C) Committee*). The motion passed unanimously.

2. Adopted a Data Template for a Private Flood Insurance Data Call

Superintendent Dwyer said the Committee discussed the possibility of a data call to collect private flood insurance data during its July 18 conference call. She said the Committee has separately discussed collection of private flood data through the annual statement blank and that the data collected in each would be as similar as possible. She noted three comment letters were received on the blanks proposal and said those comments would be discussed on a future conference call.

Superintendent Dwyer said state insurance regulators, Federal Emergency Management Agency (FEMA), the industry and consumers have struggled with defining just how big the private flood market is and how fast it might be growing. Private flood data collected through the annual statement does not distinguish between residential and commercial policies. She noted that insurance publications cite the largest writer of private flood insurance as a company that writes large corporations and does not exclude flood from its policies. The company is not issuing standalone residential policies, but this cannot be determined from the data found in the annual statement.

Superintendent Dwyer said new data received from a revision to the annual statement would not be received until 2021, so a data call would allow that data to be collected sooner. The draft data call proposes five main sections—four sections for residential coverages, including standalone first dollar, standalone excess, endorsements first dollar and endorsements excess, and one section for all commercial policies. Data collected at a state level would include direct written and earned premium, direct losses paid, direct losses case reserves, defense and cost containment paid, defense and cost containment case reserves, number of policies in force at the end of the year, number of claims reported, open claims and closed claims with payment, and percentage of polices written in a special flood hazard area (SFHA). Superintendent Dwyer said the data call would collect 2018 data later this year or early next and then 2019 data in 2020.

Birny Birnbaum (Center for Economic Justice—CEJ) said the data call should collect 2018 data after the end of 2019. He said the first six data categories track the State Page but not precisely. He recommended using State Page definitions for those data elements. He recommended the number of policies in force be collected at the beginning and end of the year. He said claims information is included in the Market Conduct Annual Statement (MCAS), although this reporting does not start with 2018 data. He said knowing the number of policies in an SFHA is important, but it may not be readily available as companies may not routinely collect it.

Lisa Brown (American Property Casualty Insurance Association—APCIA) said she agrees with Mr. Birnbaum. She noted that some of the data is collected on the MCAS and that data collection might start in 2020 for 2019 data. It was later determined that private flood data would begin to be collected through the MCAS in 2021 for 2020 data. Superintendent Dwyer asked if companies would have the SFHA data, and Ms. Brown said she would check with members. Mr. Birnbaum said the claims data in the data call should use definitions equivalent to what MCAS uses.

Commissioner White made a motion, seconded by Commissioner Mulready, to adopt the private flood data call template with revisions made during the conference call. The motion passed unanimously.

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

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Draft: 10/14/19

Cannabis Insurance (C) Working Group
Conference Call
October 10, 2019

The Cannabis Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met via conference call Oct. 10, 2019. The following Working Group members participated: Ricardo Lara, Chair, represented by Bryant Henley, Camille Dixon and Camilo Pizarro (CA); Michael Conway, Vice Chair, represented by Peg Brown (CO); Joanne Bennett and Austin Childs (AK); Steve Kinion (DE); John Melvin (KY); Robert Baron (MD); Nicole A. Brown and Carl Sornson (NJ); Kelsey Barlow (NV); Cuc Nguyen (OK); Alex Cheng and TK Keen (OR); John Lacek (PA); Matt Gendron (RI); Pat Murray and Christina Rouleau (VT); and Michael Bryant (WA). Also participating were: Vincent Gosz (AZ); Derek Silver (FL); Linda Grant (IN); Jeana Thomas (MO); Anna Krylova (NM); Gerald Scattaglia (NY); and Paige Hansen (TX).

1. Discussed Additionally Proposed Revisions to its 2020 Proposed Charges

Mr. Henley said revisions were made to the Working Group's 2020 proposed charges based on feedback from its last conference call and additional changes from Commissioner Ricardo Lara (CA). The revised 2020 proposed charges are as follows: 1) 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; 2) encourage admitted insurers to improve coverage adequacy in the states where cannabis, including hemp, is legal; 3) provide insurance resources to stakeholders and keep up with new products and innovative ideas that may shape insurance in this space; and 4) collect aggregated insurance availability and coverage gap information, as well as other cannabis and hemp insurance-related data to then publicly share the cannabis and hemp insurance-related data in a released report by the end of 2021.

Ms. Brown said she liked the revisions. Mr. Gendron asked if the second charge should include the Working Group capturing information on coverage adequacy, such as the number of insurers writing in a state and what coverages they offer. Ms. Dixon stated that the Working Group was unsuccessful in its attempts to do this previously when it asked the states to verify similar information collected from the National Cannabis Industry Association (NCIA). Ms. Brown said Colorado's recent survey of crop insurers found that there was a significant difference in coverage available for marijuana and hemp. She believes that large managing general agents (MGAs) were in a better position to negotiate contracts for large vertically integrated operations with large national insurance carriers. Mr. Keen said he was worried that the second charge presupposed a coverage adequacy problem. Mr. Gendron said this paralleled his earlier concern. Mr. Henley proposed that the word "improve" in the second charge be modified to "ensure." Ms. Brown made a motion, seconded by Ms. Bennett, to adopt the charges with the revision to the second charge. The motion passed unanimously.

2. Discussed Memorandum to the Property and Casualty Insurance (C) Committee

Mr. Henley said the memorandum (Attachment Two-A) summarizes the activity of the Working Group and explains the intent of its 2020 proposed charges and future deliverables. There were no comments on the memorandum.

3. Discussed its Next Steps

Anne Obersteadt (NAIC) said the *Understanding the Market for Cannabis Insurance* white paper will be considered for full adoption by the Executive (EX) Committee and Plenary at the Fall National Meeting.

Aaron Brandenburg (NAIC) said the Property and Casualty Insurance (C) Committee will likely consider the charges of the groups reporting to it for adoption at the Fall National Meeting, with associated materials being posted electronically two weeks prior to the meeting.

4. Discussed Any Other Matters

Mr. Melvin said Kentucky is a hemp-only state and has been receiving blanket exclusions from insurers, particularly in commercial filings. He asked if other states have had similar experiences. Ms. Dixon said California had not. Mr. Keen asked how many states were hemp-only. Mr. Melvin said there were 14 states according to the National Council on Compensation Insurance (NCCI), most of which were in the southeast portion of the country. Mr. Keen suggested that the best experience comparison would be with other states that are also hemp-only.

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

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NAIC National Association *of* Insurance Commissioners

& *The* CENTER *for* INSURANCE POLICY *and* RESEARCH

MEMORANDUM

TO: Superintendent Elizabeth Dwyer (RI)
Chair of the Property and Casualty Insurance (C) Committee

FROM: Commissioner Ricardo Lara (CA)
Chair of the Cannabis Insurance (C) Working Group

DATE:

RE: Update and Proposed 2020 Charges

The Executive (EX) Committee appointed the Cannabis Insurance (C) Working Group during its Aug. 5 2018, meeting to study insurance issues related to legal cannabis business. Specifically, the Working Group is charged to: "…consider the insurance regulatory issues surrounding the legalized cannabis business, including availability and scope of coverage, workers' compensation issues, and consumer information and protection. The Working Group will develop a white paper outlining the issues and containing recommendations for the development of regulatory guidance as appropriate. The Working Group will complete its work by first quarter 2020." This memorandum summarizes the activity of the Working Group and sets forth proposed 2020 charges intended to specify its future deliverables.

Submission of the White Paper to the Committee for Potential Adoption

The primary deliverable of the Cannabis Insurance (C) Working Group is to prepare a White Paper outlining the issues and containing recommendations for the development of regulatory guidance. The Working Group exposed the white paper *Understanding the Market for Cannabis Insurance* for a 30-day period, ending June 24, on its May 23 conference call. After accounting for all submitted comments, the Working Group unanimously adopted the White Paper on its July 9th conference call. As such, the Working Group submitted the White Paper to the C Committee for approval at the Summer National Meeting. The C Committee unanimously adopted the White Paper on August 5, 2019 at the National meeting in New York. The White Paper will be considered for potential adoption by the Executive (EX) Committee and Plenary during the Fall National Meeting in Texas.

Proposed Working Group Charges for 2020

Given the completion of its charge to develop the *Understanding the Market for Cannabis Insurance* white paper, the Working Group would like to propose updated charges for 2020.

As such, the following represents proposed changes to the 2020 Charges for the Working Group:

1) 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.

2) Encourage admitted insurers to improve coverage adequacy in states where cannabis, including hemp, is legal.

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3) Provide insurance resources to stakeholders, and keep up with new products and innovative ideas that may shape insurance in this space.

4) Collect aggregated insurance availability and coverage gap information, as well as other cannabis and hemp insurance-related data to then publicly share the cannabis and hemp insurance-related data in a released report by the end of 2021.

The Working Group has specified the charges include the evaluation of commercial insurance issues related to hemp. Both hemp and marijuana come from the same cannabis species. Many states are tracking hemp issues in parallel with marijuana issues, as businesses operating in both these spaces face many of the same issues (banking, insurance availability, etc.). Additionally, the Working Group's proposed charges reflect its intent to examine commercial insurance issues, including commercial auto and workers compensation issues. The Working Group feels issues related to impairment and safety extend beyond just cannabis-related issues and should be undertaken as part of a comprehensive effort under other Working Groups.

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Draft: 12/17/19

Catastrophe Insurance (C) Working Group
Austin, Texas
December 7, 2019

The Catastrophe Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met in Austin, TX, Dec. 7, 2019. The following Working Group members participated: Mike Chaney, Chair (MS); David Altmaier, Vice Chair, represented by Virginia Christy and Susanne Murphy (FL); Jerry Workman (AL); Michael Ricker (AK); George Bradner (CT); Colin M. Hayashida (HI); Judy Mottar (IL); Heather Droge (KS); Warren Byrd (LA); Kevin Beagan (MA); Paula Keen (MD); Fred Fuller (NC); Tom Botsko (OH); Cuc Nguyen (OK); Brian Fordham (OR); Mike McKenney (PA); Beth Vollucci (RI); Joe Cregan (SC); Patrick Merkel (TN); J'ne Byckovski and Mark Worman (TX); John Haworth (WA); and James A. Dodrill (WV). Also participating were: Peg Brown (CO); Travis Grassel (IA); and Scott A. White (VA).

1. Adopted its Summer National Meeting Minutes

Commissioner Dodrill made a motion, seconded by Mr. Haworth, to adopt the Working Group's Aug. 3 minutes (*see NAIC Proceedings – Summer 2019, Property and Casualty Insurance (C) Committee, Attachment Two*). The motion passed unanimously.

2. Adopted its Drafting Group Reports

Mr. Bradner said a drafting group consisting of himself, Mr. Workman, Ms. Nelson and Mr. Byrd has been working on updating the *NAIC State Disaster Response Plan*. The purpose of the document is to provide a template for a state department of insurance (DOI) to use when assisting consumers following a disaster. The document details how a DOI can work with other agencies, including federal, state or local agencies; the NAIC; and other state DOIs. The *NAIC State Disaster Response Plan* template provides states needing NAIC assistance following a disaster with high-level action items for a state DOI to do prior to contacting the NAIC, as well as the types of assistance the NAIC can provide to the states.

Mr. Bradner said the document is broken up into several topics, including: 1) preparation steps, as well as important planning considerations following a disaster; 2) important contacts that a DOI should collect on a regular basis; 3) resources required for emergency response; 4) major incident management functions; 5) disaster response teams and their purpose; 6) roles and responsibilities of various staff members following a disaster; 7) example response levels and definitions; and 8) contact templates.

Mr. Bradner said the drafting group would like to send the document to Working Group members and interested state insurance regulators for input. Once the input is received and incorporated, the document can be exposed.

Mr. Bradner made a motion, seconded by Mr. Byrd, to adopt the Working Group's report and expose the document for a 30-day public comment period.

3. Heard an Update Regarding Federal Legislation and the NFIP

Brooke Stringer (NAIC) provided an update regarding federal legislation and the National Flood Insurance Program (NFIP). The NFIP continues to operate on a series of short-term extensions since its reauthorization expired two years ago. Last month, the 14th short-term extension was signed into law as part of a federal government spending bill. This extension continues through Dec. 20. There were 17 extensions over a four year period leading up to the last NFIP reauthorization. Currently, there is not much optimism for a deal on a long-term extension within the next few weeks, and additional short-term extensions are likely.

The last substantive Congressional action was in June when the U.S. House of Representatives (House) Committee on Financial Services approved a five year reauthorization bill (H.R. 3167). This bill included some provisions from the NAIC guiding principles for reauthorization, including ensuring that consumers can leave and return to the NFIP without penalty and receive pro-rata refunds when they cancel an NFIP policy midterm to switch to a private flood insurance policy. However, following the committee markup, lawmakers from coastal states introduced an alternative bill, (H.R. 3872/S. 2187) as they did not believe

Chairwoman Maxine Waters' bill went far enough to protect policyholders from rate hikes. Neither bill has proceeded further at this time, and there has been no focus on the NFIP reauthorization in the U.S. Senate (Senate). Ms. Stringer will continue to keep the Working Group updated on any Congressional action.

Last month, the Federal Emergency Management Agency (FEMA) announced that it will delay implementation of its Risk Rating 2.0 initiative until Oct. 1, 2021. Risk Rating 2.0 is FEMA's new flood risk rating system.

4. Heard a Presentation from Milliman and FEMA Regarding Risk Rating 2.0

Nancy Watkins (Milliman) said FEMA's current rating system, Risk Rating 1.0, is based on first generation technology, which is insufficient for current purposes. The technology needs to be updated due to changes in technology. Some of the limitations of the current rating system include: 1) an inconsistent match of risk to rate; 2) current rates are based on outdated methods; and 3) current rates are confusing and opaque.

Ms. Watkins said the current rating system inconsistently matches risk to rate. Inconsistent matches of risk to rate include scenarios such as: 1) neighbors having very different premiums; 2) mispriced policies for homes under water following a flood event; 3) repetitive loss properties; 4) interstate subsidization; 5) insurance to value effects; and 6) large premiums.

Ms. Watkins said insurance to value effects include the fact that dwelling replacement cost is not considered in premium calculation. Two houses with the same amount of coverage can pay the same premium, even with very different home values; therefore, high value homes are subsidized by low value homes.

Ms. Watkins said current rates are based on outdated methods, as flood zones ignore pluvial (flash) flood risk. For example, Hurricane Harvey damaged more than 204,000 homes and apartments in Harris County, and almost three-quarters of these properties were outside of the federally regulated 100-year flood plain. This flood event left thousands of homeowners uninsured and unprepared. Ms. Watkins said most urban flooding is pluvial and not considered in Risk Rating 1.0.

Ms. Watkins said historical experience regarding flooding is volatile and reflects only what has happened and not what could happen. There are other flood zone limitations including: 1) flood zones based on greater depth of a 100-year flood from either storm surge or riverine flooding at a given point; 2) combined effects of storm surge and riverine flooding not considered; 3) current mapping only produces 100-year flood elevations, but floods come in all sizes; 4) flood depths at other return periods are not considered; 5) correlation between flooding at nearby locations is not considered; and 6) concentration risk that contributes to volatility and reinsurance cost are not considered.

Ms. Watkins said elevation certification requirements are confusing to consumers. Elevation certificates are required for some homes, but not all homes, and they depend on several factors, including: 1) flood zone; 2) the year of construction; and 3) the year of the initial flood map. An elevation certificate may result in a lower premium, even when it is not mandatorily required. The elevation certificate process, decision and cost are something that most homeowners do not fully understand.

Ms. Watkins said grandfathering and remapping effects are confusing to consumers. A home built in a flood zone that is later remapped may change the elevation needs. Additionally, grandfathered rates may not be applicable to a person buying a home that has been remapped, which may substantially increase the premium for the new owner.

Ms. Watkins said there is an issue with take-up rates, as mandatory purchase of flood insurance does not apply in X zones. The lack of rate differentiation in X zones means that higher risk insureds tend to purchase coverage, while lower risk insureds tend not to purchase coverage; this lowers the take-up rate.

David Maurstad (FEMA) said FEMAs mission is to help consumers before, during and after a disaster. He said FEMAs intention is to build a culture of preparedness that leads to community resilience and results in less suffering due to a disaster.

Mr. Maurstad said Congress passed the 14th NFIP short-term extension in September; this extension expires on Dec. 20. Throughout the reauthorization process, FEMA believes that there is an opportunity for the U.S. Congress (Congress) to take steps to support the NFIP transformation to provide greater flexibility and make customer-centric changes.

Mr. Maurstad said FEMA continues to emphasize the importance of a timely and multi-year reauthorization that creates a sound financial framework, making the program sustainable for years to come, to increase the number of consumers covered under the NFIP program, improve the customer experience, implement essential program reforms, and move mitigation forward across the nation. He said FEMA will continue to work with Congress and the administration to be sure everyone is fully informed regarding the opportunities and the challenges faced by the NFIP. He said even with the uncertainty of a long-term reauthorization, FEMA will continue to work to transform the NFIP.

Mr. Maurstad said in 2019 there were 45 major disaster declarations across 25 states, five tribal regions, and one territory. Disaster costs also continue to increase. Disaster events in 2018 totaled $91 billion. Through October 2019, there have been a total of 10 disasters costing $1 billion each.

Mr. Maurstad said FEMA is attempting to change the national discussion focusing on the impact of disasters and their response and recovery. He said while this is necessary, FEMA needs to move to more actively engage in thinking about what can be done to reduce disaster suffering and contribute to individual and community resilience prior to a disaster.

Mr. Maurstad said 98% of the counties in the U.S. have experienced flooding events. He said flood insurance allows consumers to get back on the road to recovery more quickly and adds to individual and community resilience. The average flood insurance premium is $700 per year, and the average claim payment is $43,000. It is important to note that one inch of water can cause $25,000 of damage.

Mr. Maurstad said the National Flood Insurance Act instructs FEMA to periodically review the NFIP rating structure to be sure that there are actuarially sound principles. He said a few years ago, FEMA started to prioritize the customer experience and focus on what could be done to increase the take-up rate of flood insurance. FEMA assessed the rating product and pricing and began to build the Risk Rating 2.0 product.

The understanding of flood risk has evolved for the NFIP, insurers and reinsurers. FEMA's current rates and methodology simply do not show the full flood risk, and incorrect pricing signals are being sent to property owners. Since the 1970s the NFIP rates have been based on property elevation and location within a zone. Relying on that static view resulted in misidentified risk and an inequitable flood insurance program.

The NFIP has inadvertently over the years resulted in the disparity of lower value homes paying relatively more for flood insurance than policyholders with higher value homes. FEMA is working to incorporate innovative technology data and modeling methodologies, as well as include private sector data sets. Risk Rating 2.0 will help policyholders and future policyholders to better understand their individual property risk by incorporating broader geographic and structural variables, such as distance to a close river, with the objective to strive to deliver rates that are fair, easier to understand, and better reflect a property's unique flood risk.

Risk Rating 2.0 will fundamentally change the way FEMA rates a property's flood risk and prices flood insurance. Risk Rating 2.0 will provide premium factors that are easier for both agents and policyholders to understand. Risk Rating 2.0 will provide the basis for more informed decision making for property owners, and it will contribute necessary information so property owners can consider mitigation actions that can also better protect the property owner and help to reduce their flood insurance premium.

FEMA now has the tools to address inequity between lower-valued and higher-valued homes. This will also provide a basis for the necessary revenues to cover prospective losses, establish a sound financial framework, and contribute to moving the NFIP to more solid fiscal ground. Risk Rating 2.0 will also ultimately result in better land use, flood plain management decisions, a more informed consumer base, more building structure mitigated to withstand flood events, more people insured, and a more financially prepared nation.

FEMA will provide more information regarding Risk Rating 2.0 when it is certain that the information is ready to release. FEMA has made a lot of progress and has worked with industry, individuals and partners to create a completely new risk rating methodology that will be able to perform and reveal a better flood risk. Risk Rating 2.0 will be rolled out for residential, multi-family and commercial structures at the same time.

Commissioner Dodrill said one of the first meetings he had as an insurance commissioner was with FEMA. He said FEMA came to tell him about existing three-year policies that were about to expire following the June 16 flooding. He said there would be consequences to the individuals if they did not convert the policies to privately paid policies; the consequence was that the next time there is a flood, FEMA is not coming. He said his DOI embarked on a campaign of public outreach over several months to encourage consumers in the state to convert those policies in August to privately paid policies. He said they did not have much success in West Virginia, as the take-up rate on flood policies was low.

Commissioner Dodrill said many of the homes in West Virginia also do not have mortgages, as they have been passed down through the generations. Mandating flood insurance for homes that have federally backed mortgages for flood is not a solution in West Virginia. Subsidization is also a huge issue in West Virginia. Commissioner Dodrill said individuals in his state simply cannot afford to convert the individual assistance policies. He asked Mr. Maurstad how Risk Rating 2.0 is going to be phased in and how it will affect lower income individuals. He also asked about the possibility of insureds paying monthly or quarterly payments instead of payment in full to make flood insurance more affordable by issuing periodic payments.

Mr. Maurstad said FEMA needs to do a better job making sure individuals understand that they have the flood policy and coverage provided by the FEMA individual assistance program. He said it is important for individuals to understand what steps can be taken to prepare for maintaining and obtaining requirements of the individual assistance grant program to be eligible for individual assistance if another flood event occurs.

Mr. Maurstad said FEMA is able to provide resources and information to help the states. He said there is technical assistance that FEMA can provide to help individuals understand that the reason that they lose that coverage is to provide an incentive for them to obtain flood insurance.

Mr. Maurstad said an affordability study has been done for Congress, and there have been proposals suggested during the reauthorization discussions to start some type of affordability program. One specific suggestion by the administration was to slow down the increases for those policyholders that earn 8% or less of the average median income in an area. Affordability is an issue that needs to be addressed.

Mr. Maurstad said monthly installments were actually part of the last reauthorization, and FEMA is in the process of developing a monthly installment program that is going through ruling right now.

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

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Draft: 12/17/19

Climate Risk and Resilience (C) Working Group
(*f.k.a. Climate Change and Global Warming (C) Working Group*)
Austin, Texas
December 7, 2019

The Climate Risk and Resilience Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met in Austin, TX, Dec. 7, 2019. The following Working Group members participated: Mike Kreidler, Chair, Jay Bruns, Annalisa Gellermann and Patrick McNaughton (WA); Michael Ricker (AK); William Arfanis and George Bradner (CT); Colin Hayashida (HI); Judy Mottar (IL); Robert Baron (MD); Steve Kelley and Peter Brickwedde (MN); Anna Krylova (NM); Marshal Bozzo (NY); Tom Botsko (OH); Andrew Stolfi (OR); Shannen Logue and Michael McKenney (PA); and Rosemary Raszka (VT). Also participating were: Travis Grassel (IA); Beth Vollucci (RI); and Scott A. White (VA).

1. Adopted its Oct. 2 and Summer National Meeting Minutes

Mr. Bradner made a motion, seconded by Mr. Baron, to adopt the Working Group's Oct. 2 (Attachment Four-A) and Aug. 3 (*see NAIC Proceedings – Summer 2019, Property and Casualty Insurance (C) Committee, Attachment Three*) minutes. The motion passed unanimously.

2. Heard Updates on Working Group Members' Climate Resilience-Related Activities

Commissioner Kreidler said the work of this Working Group is part of an ongoing global effort for climate action and resilience. Today, the 2019 United Nations (UN) Climate Change Conference (COP25) is meeting in Madrid, Spain. In the run-up to that meeting, the UN released a report warning that even if countries meet commitments made under the Paris Agreement, the world is heading for a 3.2 degrees Celsius global temperature rise over pre-industrial levels, leading to even wider-ranging and more destructive climate impacts. Regional, state and local efforts continue to be fundamental in combating climate risk and improving resilience in the U.S. As such, Commissioner Kreidler said it is prudent to provide an opportunity at each Working Group meeting for members to share what climate resilience activities they, or their departments, have been engaged in. Doing so provides everyone with an opportunity to learn from the other.

a. New York

Mr. Bozzo said Superintendent Linda A. Lacewell (NY) provided a keynote address during the Insurance and Climate Risk Americas conference, which was held Sept. 16 in New York City. The keynote focused on how the state of New York is approaching climate risk and resilience.

During the keynote, Superintendent Lacewell shared that New York took the following recent actions:

- New York Gov. Andrew M. Cuomo recently signed the Climate Leadership and Community Protection Act, committing the state to an 85% reduction in emissions and economy-wide carbon neutrality by 2050.
- The New York State Department of Financial Services (DFS) recently became the first state banking regulator to join the Network for Greening the Financial System (NGFS). NGFS is an international coalition of bank supervisors with a goal of driving the financial industry to address climate change.
- DFS became the third state (behind California and Washington) to join the Sustainable Insurance Forum (SIF). SIF is an international network of insurance supervisors seeking to strengthen their understanding of and responses to sustainability issues for the business of insurance.
- DFS requires its regulated insurers to submit a National Disaster Plan annually and provides guidance on how to do so.

Superintendent Lacewell also highlighted the following key points:

- Insurers need to balance the climate vulnerability of their assets and liabilities.
- Flood risk is a top concern, with the number of National Flood Insurance Program (NFIP) policies having decreased in the state.
- Transparency is an issue. Consumers overlook the flood exclusion disclaimer on homeowners insurance policies because of the policies' length.

- Insurers need to take an accurate assessment of their climate risk and should consider participation in the Financial Stability Board (FSB) Task Force on Climate-Related Financial Disclosures (TCFD) survey.
- Insurers' use of policyholder incentives to invest in resilience is a positive market trend.
- The public-private partnership is more critical than ever.

b. Connecticut

Mr. Bradner stated the Connecticut Insurance Department participated in:

- Former Connecticut Gov. Dannel Malloy's Council on Climate Change (G3C). On Sept. 3, 2019, current Connecticut Gov. Ned Lamont issued Executive Order No. 3, reestablishing and expanding the membership and responsibilities of G3C. G3C is tasked with monitoring the implementation of Connecticut's commitment to reduce greenhouse gases 45% by 2030.
- The Connecticut Institute for Resilience and Climate Adaptation (CIRCA) Resilient Connecticut Climate Adaptation Summit, which was held Nov. 12 in Fairfield, CT. Key points included:
  - It is helpful to use an urban development strategy that invests in resilience corridors to avoid investing in flood-prone areas. Resilience corridors are strategic investment areas linking uplands to the coast through transportation hubs and providing egress and access routes across municipalities.
  - The development of a spatial index-based approach by the Resilient Connecticut project to model vulnerabilities for Connecticut coastal towns in multi-scale with multi-criteria. The tool will help regional, municipal and site scale planners assess future sea-level rise and associated flooding.

Mr. Bradner said he presented on Connecticut's long-term recovery efforts at the Federal Emergency Management Agency's (FEMA) Regional Resilience Roundtable, which was held July 10 in Boston, MA. Additionally, he attended the Environmental Business Council (EBC) New England Climate Change Resilience and Adaptation Summit, which was held July 26 in Smithfield, RI. During the summit, leaders from New England states provided updates on their specific climate change strategies. He also participated on the "Ensuring Sustainability and Insuring Resilience" panel during the Insurance and Climate Risk Americas conference. During the panel:

- Mr. Bradner discussed resiliency efforts by the NAIC and this Working Group, as well as the Insurance Institute for Business and Home Safety (IIBHS) and the Connecticut Recovery Working Group.
- Eric Wilson (New York City Mayor's Office of Resiliency) spoke to efforts by New York City to address resilience in public and private buildings and discussed sustainable mandates.
- Michael Cohen (RenaissanceRe) discussed creative financial products (such as resilience bonds and parametric insurance) that communities can incorporate into their resiliency initiatives.
- David Levy (University of Massachusetts Boston) discussed efforts to examine how to finance climate adaptation. This includes moving toward rating buildings and cities for resilience to influence insurance rates and bond ratings; bringing in banks, so risk can be reflected in mortgage underwriting and rates; and addressing the tensions between market pricing of risk and affordability.

Commissioner Kreidler said he is glad to have New York join Washington and California in discussions at the SIF. He said having a robust flood insurance market is a better solution than policymakers responding to their constituents with coverage mandates that may not be advantageous to the insurance industry.

Mr. Bozzo said insurers can alter the behavior of policyholders by offering them a discount.

3. Discussed the Climate Survey, Including Resilience Measures Reported by Insurers and the Incorporation of the TCFD Guidelines

Commissioner Kreidler said the *NAIC Climate Risk Disclosure Survey* (Climate Survey) was developed by this Working Group and adopted by the NAIC membership in 2010. Now that there is almost a decade of responses, it is important to look at how insurers are responding to the survey's eight questions on how they are accounting for climate risk.

Mr. Bruns said there is a lot of overlap in the TCFD survey and the Climate Survey questions. The Climate Survey is administered to about 1,000 insurers annually and is publicly available on the California Department of Insurance website. The responses are qualitative and were originally developed to better understand how insurers are considering climate risk in their underwriting, operations and reserves. Six states (California, Connecticut, Minnesota, New Mexico, New York and

Washington) administer the Climate Survey to insurers writing more than $100 million in premium. This year, 1,257 insurers responded, representing about 70% of the U.S. market.

The Climate Survey questions are:

1. Does the company have a plan to assess, reduce or mitigate its emissions in its operations or organizations? If yes, please summarize. If no, please describe why not.
2. Does the company have a climate change policy with respect to risk management and investment management? If yes, please summarize. If no, how does the company account for climate change in your risk management?
3. Describe your company's process for identifying climate change-related risks and assessing the degree that they could affect your business, including financial implications. If your company has a process, please summarize. Otherwise, please describe why not.
4. Summarize the current or anticipated risks that climate change poses to your company. Explain the ways that these risks could affect your business. Include identification of the geographical areas affected by these risks. If your company has identified risks, explain the ways that these risks could affect your business. Include identification of the geographical areas affected by these risks. Otherwise, please describe why not.
5. Has the company considered the impact of climate change on its investment portfolio? Has it altered its investment strategy in response to these considerations? If so, please summarize steps you have taken. If the company has considered the impact, please summarize. Otherwise, please describe why not.
6. Summarize steps the company has taken to encourage policyholders to reduce the losses caused by climate change-influenced events. If the company has taken steps, please summarize. Otherwise, please describe why not.
7. Discuss steps, if any, the company has taken to engage key constituencies on the topic of climate change. If the company has taken steps, please summarize. Otherwise, please describe why not.
8. Describe actions the company is taking to manage the risks climate change poses to your business including, in general terms, the use of computer modeling. If the company is taking actions, please summarize what actions the company is taking and in general terms the use of any of computer modeling. Otherwise, please describe why not.

Responses included one respondent stating it is currently on its third greenhouse gas emissions reduction strategy, having met the first two. The most current strategy includes emissions on previously unconsidered sources, such as travel. The Hartford stated that it does have a climate change statement and has updated it. This includes an environmental, social and governance (ESG) statement on its investments. Allstate stated that its process includes managing climate risk through an enterprise risk framework that includes risk return principles, modeling and analytics. Pennsylvania Lumbermens stated that it has increased its surplus in anticipation of larger losses, shifted into more conservative investments and reached out to policyholders ahead of disasters to warn them. USAA said it reaches out to key constituencies through a newsletter and sponsored conferences.

Beginning with the 2019 Climate Survey administration, respondents were asked to refer to the TCFD survey guidelines and were permitted to submit their TCFD survey in lieu of the Climate Survey. The TCFD was established by the FSB in December 2015 to develop a set of voluntary, consistent disclosure recommendations for use by companies in providing information to investors, lenders and insurance underwriters about their climate-related financial risks.

The FSB was established and endorsed by the heads of state and government of the G20 in 2009. The FSB has assumed a key role in promoting the reform of international financial regulation and supervision. The TCFD survey, launched in 2017, was developed by industry participants, including BlackRock, Ernst & Young, Swiss Re, Moody’s and Bloomberg. Support for the TCFD survey has grown to 867 organizations, including the SIF and the International Association of Insurance Supervisors (IAIS).

4. <u>Heard a Presentation on AIG’s Newly Implemented Sustainability Strategy and Enhanced Reporting, Including Participating in the 2018 TCFD Disclosure Report.</u>

Jennifer Waldner (American International Group—AIG) said AIG was the first U.S. insurer in 2006 to formally recognize the risks of anthropogenic climate change. The company currently manages more than $2.9 billion in private placement investments in renewable energy projects worldwide. This includes being a leading investor in geothermal, hydroelectric, wind and solar projects. It is also a founding member of the Blue Marble Microinsurance, which is a consortium that provides commercially viable insurance protection to the underserved.

Ms. Waldner said last year, AIG had a 34% reduction in utility usage and related carbon emissions across its New York City and United Kingdom (UK) office operations. An employee-led Sustainability Working Group was formed in 2015 to better organize its sustainability efforts across the company. It also formed a CEO-endorsed Sustainability Task Force to build out a strategic sustainability plan globally in 2018. With the help of a Boston-based consultant, AIG conducted an internal audit and formed five work streams: products and services; operations; investments; external partners; and resilience. At the end of three months, the internal audit showed AIG had 75 initiatives that were sustainable in some way.

Ms. Waldner said AIG approved its sustainability strategy in 2019, which included hiring a chief sustainability officer and launching its TCFD inaugural report in July. The strategy aligns AIG's sustainability efforts with its core business of "future proofing" communities. Its four pillars are: city/community resilience; financial security; sustainable investments; and sustainable operations. AIG recently formed a risk management engineering and analytics center in partnership with a global engineering firm to help its clients become more resilient. The company also provides financial education to customers and the community through such things as its partnership with Foundation for Financial Planning, which focuses on the underserved. AIG also focuses on reducing its utility usage.

Ms. Waldner said AIG's sustainability governance structure includes the chief sustainability officer reporting to Thomas Leonardi, executive vice president and vice chair of AIG Life Holdings Inc. The Sustainability Integration Team reports to the chief sustainability officer and was formed to formally embed sustainability throughout the company. An Employee Sustainability Network will be launched in 2020 to allow all employees to be involved in sustainability efforts.

Ms. Waldner said AIG decided to participate in the TCFD survey because: 1) it provides an opportunity to be more responsive and transparent with stakeholders; 2) reflects the company's increased attention to and awareness of climate-related risks; 3) offers a more consistent approach that aligns with other reporting efforts; 4) provides a structure to guide internal discussions and thinking around climate-related risks; and 5) allows for proactive reporting, with indications that mandatory reporting will likely be instituted in some jurisdictions.

Ms. Waldner said participating in the TCFD survey allows for robust disclosure, while also adhering to the participation in the Climate Survey, thereby reducing survey fatigue. AIG is hopeful other jurisdictions will also allow for the submission of the TCFD survey in lieu of their jurisdiction-specific reports. Through participation in the TCFD survey, the company learned: 1) identifying and engaging with cross-functional colleagues across the company to develop responses is imperative; 2) responding is a commitment of time and resources; and 3) the report is a living disclosure that will undergo continuous iterative updates. The company is also contemplating performing a climate change scenario analysis.

Ms. Waldner said AIG's next steps include: 1) evaluating how to best build on the foundational disclosure provided in the first TCFD; 2) partnering with the Sustainability Integration Team to help identify and drive current and future initiatives, build business and social impact cases, and develop flagship projects; 3) supporting the work of its newly formed Climate Working Group, ESG Working Group and Enterprise Risk Management (ERM) Sustainability Working Group; and 4) continuing to work with the NAIC and other key stakeholders to report on and discuss climate-related risks.

Commissioner Kreidler said AIG is providing important leadership on sustainability in the insurance industry. The presentation illustrates how sustainability is an important initiative in the U.S. and globally. He said there are likely to be several actions taken in this area soon, as world leaders and stakeholders try to "get ahead of the curve" on climate risk.

5. Discussed Other Matters

Commissioner Kreidler said the Working Group will begin drafting the Insurance Regulatory Frequently Asked Questions (FAQ) through an informal drafting group after the first of the year.

Having no further business, the Climate Risk and Resilience (C) Working Group adjourned.

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Draft: 10/8/19

Climate Risk and Resilience (C) Working Group
(*f.k.a. Climate Change and Global Warming (C) Working Group*)
Conference Call
Oct. 2, 2019

The Climate Risk and Resilience Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met via conference call Oct. 2, 2019. The following Working Group members participated: Mike Kreidler, Chair, David Forte, Jay Bruns and Patrick McNaughton (WA); Ricardo Lara, Vice Chair, Lisbeth Landsman-Smith and Michael Peterson (CA); Austin Childs (AK); Peg Brown (CO); George Bradner (CT); Colin M. Hayashida (HI); Judy Mottar (IL); Caleb Huntington (MA); Derek Oestreicher (MT); Marshal Bozzo (NY); and Andrew Stolfi, TK Keen and Ying Liu (OR). Also participating were: William Lacy (AR); Leslie Ledogar (DE); Shaw P. Stiller (FL); Kate Kixmiller (IN); and Holly Campbell (RI).

1. Discussed the Proposed Development of an FAQ

Commissioner Kreidler stated that severe weather events have been escalating in recent years. Using National Oceanic and Atmospheric Administration (NOAA) estimates, this decade has seen an annual average of 10.5 disasters so far. The scale of this increase amounts to one additional billion-dollar disaster every four years. Given the rise in costly disasters, many state policymakers and lawmakers are considering measures that incentivize and strengthen their jurisdictions' resilience. As they do so, they naturally reach out to their insurance departments for information on catastrophe risk, resilience and insurance.

Commissioner Kreidler said that the purpose of today's conference call is to get the Working Group's thoughts on developing a product that can assist insurance departments in fielding these types of questions. This potential product, currently being referred to as the *Insurance Regulatory Frequently Asked Questions* (FAQ) (Attachment Four-A1) is meant to be a compilation of questions state insurance regulators find they are frequently being asked. The intent is that the Working Group product would consist only of the questions. This would allow each insurance department to voluntarily answer the questions as they relate to their specific state. The responses can then be disseminated by each insurance department to inform state and local efforts related to resilience and insurance. The FAQ is not proposed to address specific legislation, policies or regulations, but rather to be used as a guideline when such actions are being considered.

California has passed and continues to deliberate on legislation to support resilience, recovery and rebuilding efforts after two destructive years of wildfire losses. Given all this activity, California has provided potential questions for the FAQ by compiling requests it frequently receives from its lawmakers and policymakers. The questions naturally reflect wildfire risk, but many are also applicable to other weather-related perils. Thus, the discussion will focus on getting feedback on the following questions:

1) Does the Working Group think it would be advantageous for it to develop an FAQ product to assist state insurance departments in fielding frequently asked questions? This FAQ would consist only of questions. Responses would be left to the discretion of each insurance department.

2) What structure should the FAQ take? Options include:
    a. Peril-specific. In this approach, the questions would focus on just wildfire. Additional FAQs could potentially be later developed for other single perils, such as flood.
    b. All weather-related perils, with general questions followed by peril-specific questions being broken out into subsections.
    c. All weather-related perils, with only general questions and instructions to denote when the response varies for a peril.

3) Should development of the FAQ be done in an informal drafting group?

Mr. Peterson said California has been through several major wildfires, even before those in 2017. As a result, they have met with many consumers, first responders, state legislators and other stakeholders to discuss wildfire-related issues. This includes the Risk and Resilience Summit, sponsored by the NAIC in May, where state insurance regulators met for two days of discussions on insurance issues and shared responses to growing wildfire insurance risk. The Summit included a visit to Paradise, CA, and meetings with local officials, homeowners and first responders. The questions currently listed in the FAQ are an outgrowth of this Summit, a recent data call and other related discussions. They are by no means exhaustive, but rather a start.

The first section of the FAQ is on mitigation. Mitigation represents an important tool to improving affordability and availability of insurance. However, policy structures can be elusive in how mitigation is best promoted. For instance, the government in the Netherlands invests substantially in flood prevention, which, in part enables people to live where they do. The questions represent different incentive tactics that legislators and policymakers can look to when crafting laws and policies. This includes incorporating incentives into pricing, tax incentives, mitigation grants and resilience standards. For instance, those in the Wildland-Urban Interface (WUI) often believe that meeting a certain level of home mitigation should secure them guaranteed coverage in the admitted market.

The second section of the FAQ is on the supervision of claims themselves. The speed of claims and additional living expenses (ALE) have been common themes for California. It can be advantageous for consumers to receive a portion of their payout without having to go through an exhaustive inventory list. Additionally, issues often surface around time constraints for using ALE and whether ALE should apply in cases of partial loss, when local infrastructure, such as the water system, is unusable.

The third section of the FAQ is on nonrenewal. In August, California released the results of its data call that showed an increase in non-renewals in the WUI communities. One common theme was the amount of notice a consumer gets prior to a nonrenewal. The California legislature responded by increasing the required notice of nonrenewal from 45 days to 75 days to allow consumers adequate time to take mitigation steps to prevent a non-renewal.

The fourth section of the FAQ is on underinsurance, which is a common concern with legislators, state insurance regulators and consumers. There may be a divergence between how much coverage a home has and how much it takes to replace it.

The fifth section of the FAQ is focused on safeguards to abrupt increases in insurance premiums and the impact of using new data sources to more granularly segment risk.

The sixth section of the FAQ is focused on rebuilding restrictions, which needs more focus. In California, some or all of a consumer's insurance payout can be used to rebuild in a less risky area. This could benefit consumers and insurers as it results in a quicker claim resolution and less insured risk. However, there are different interpretations of state statutes in whether consumers can use their full coverage limit to rebuild elsewhere or if a deduction in land value should apply. These are common questions that we have heard in California in the aftermath of catastrophic wildfires and we wanted to see if they are applicable to other states and could be beneficial to consider pre-disaster.

Commissioner Kreidler stated that states may differ in which perils are emphasized in the FAQ, but most of the questions reflect at some level the dilemmas all states face after a catastrophe. Most states have Fair Access to Insurance Requirements (FAIR) Plans dating back to their implementation in the 1960s. Washington almost discontinued its FAIR plan due to low use but ultimately decided to keep it.

Commissioner Stolfi stated the FAQ is a good idea. He asked if the FAQ should focus on personal lines issues, commercial lines issues or both. He stated Oregon receives many questions on whether carriers are trying to exclude wildfire coverages. He suggested adding questions relating to building codes, exclusions and withdrawals. He stated it would be extremely useful to Oregon, and likely other states, to see how other states respond to these questions. As such, he is in support of compiling each state's answers to the FAQ for sharing purposes.

Mr. Bozzo stated the FAQ represents a good set of discussion points. He added that being able to compare what is being done in each state would be of great benefit. He also stated it would be more beneficial to all states to include all perils.

Commissioner Kreidler stated he agrees that a more all-perils approach is best in the FAQ. He stated that an all weather-related perils, with general questions followed by peril-specific questions being broken out into subsections, makes the most sense.

Mr. Bradner suggested questions relating to the type of products each state offers in its FAIR plan be added to the FAQ. The residual market can vary drastically by state. FAIR plan products can offer consumers an option when there is not one in the admitted market.

Commissioner Kreidler stated he agrees. States can benefit from seeing other states' FAIR plan structures and how they provide needed coverage without diminishing the admitted market.

Ms. Brown stated the FAQ is interesting. Colorado does not have a FAIR plan and is currently developing a data call to find out what areas do not have admitted insurance coverage options due to carriers withdrawing from higher risk communities. She said she also supports compiling state responses to the FAQ. Additionally, the Working Group may get industry directed suggestions on what changes are necessary to improve the affordability and availability of insurance.

Commissioner Kreidler stated he agrees, and he said Washington is also in the process of doing a data call to develop a baseline. He asked if there were any objections to developing an FAQ.

Mr. Bozzo stated the questions were an effective starting point but should be fine-tuned to reflect questions relevant to all and those that are more region-specific.

Commissioner Kreidler stated he would be interested in seeing how other states, such as New York, view and deal with flood issues, even if Washington does not face flood risk in the same way. The Working Group should begin with more general questions that apply to all states but may decide in the future to develop a more peril-specific FAQ. Additionally, responding to the FAQ would, of course, be voluntary for states and they could modify the questions as they fit.

Commissioner Stolfi said Oregon supports the FAQ and the collection of states' responses to it.

Anne Obersteadt (NAIC) said the NAIC state government relations policy advisor recommended tweaking the FAQ toward each peril and packaging it accordingly. State lawmakers are more likely to see an FAQ packaged specifically for the peril under consideration as relevant. For instance, the FAQ could be packaged with a flood coverage page and added discussion related specifically to flood. The FAQ could then be repackaged for wildfire risk in the same way. The Working Group could consider developing general questions relevant to all states and perils first and then add subsections to the FAQ for peril-specific questions in the future. The FAQ with a flood subsection could then be packaged as a flood-specific FAQ for those lawmakers and policymakers only interested in flood. Likewise, the FAQ with a wildfire subsection could be packaged as a wildfire-specific FAQ for those only interested in wildfire.

Commissioner Kreidler stated the approach to start general and then narrow the scope by adding subsections with peril-specific questions later makes sense. He asked NAIC staff to implement the revisions thus far suggested by Working Group members on the call, with further drafting of the FAQ to be done through an informal drafting group.

Having no further business, the Climate Risk and Resilience (C) Working Group adjourned.

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Insurance Regulatory FAQ on Catastrophe Events

PURPOSE

The purpose of the Insurance Regulatory Frequently Asked Questions on Catastrophe Events ("CAT FAQ") is to inform state and local efforts related to catastrophe risk, resilience and insurance. While it doesn't address specific legislation, policies or regulations, it can be used as a guideline when such actions are being considered.

The CAT FAQ was developed by compiling the questions insurance departments receive most frequently from legislators and policymakers. The questions are intended to be answered by each state insurance department. Thus, the responses will reflect the nuances of each state.

COMMONLY ASKED QUESTIONS

Tentative list of questions to be added/revised by Working Group.

(If responses are different by peril, please note.)

I. Mitigation
   A. Mitigation generally reduces risks and promotes more availability of insurance. What incentives do consumers have to mitigate their home?
   B. Are there incentives built in to the pricing of insurance policies?
   C. If a state funds mitigation incentives, such as grants, loans, and/or public-private partnerships, is there an overall strategy to improve availability of insurance in the state?
   D. How do statewide mitigation efforts, such as Utah's Catastrophic Wildfire Plan, prioritize projects, monitor progress, and fund maintenance to reduce the risk of future losses?
   E. If mitigation is a potential pathway to a more resilient insurance market, are states with similar risks making similar pre-disaster investments?
   F. Do states have specific statewide standards for home or community mitigation in the wildland-urban interface?
   G. Are states offering any tax incentives for home mitigation actions?
   H. Are there any restrictions on local governments in regard to land development?
   I. Is there any scenario under which a consumer is "guaranteed" offer/renewal of insurance?

Insurance Regulatory FAQ on Catastrophe Events

COMMONLY ASKED QUESTIONS CONTINUED

II. Supervision of claims
- A. Speed
  - i. What are the state laws regarding the timing of the payment of claims?
  - ii. Are insurers required to distribute a certain percentage of an insured's contents coverage before an inventory is submitted?
  - iii. How have states approached getting money to consumers as quickly as possible so that they can start recovering?
- B. Additional Living Expenses (ALE)
  - i. What are the time constraints for using ALE?
  - ii. Does ALE apply to partial losses, or when local infrastructure is not accessible or useable (*e.g.,* inaccessible roads or unusable water system) or only to total losses?

III. Nonrenewal
- A. What are the options if a consumer is non-renewed?
- B. Are there any circumstances under which a consumer must be renewed by an insurer?
- C. How much advance warning are insurers required to give insureds and is this enough time to take any mitigation actions to prevent a non-renewal?
- D. What prevents an insurer from asking for mitigation actions from a homeowner (replacing a wood shake roof with a metal roof) and then making a decision to non-renew that consumer?
- E. Are there mechanisms to determine what percentage of non-renewed consumers decide to go without property insurance?
- F. How are non-renewals impacting ranches and farms?
- G. What authority do regulators have over the use of wildfire models by insurers for underwriting?

IV. Underinsurance
- A. Are insurers required to provide any regularly updated estimate of replacement cost to consumers?
- B. Are there other safeguards for consumers to reduce the likelihood of being unintentionally underinsured?

Insurance Regulatory FAQ on Catastrophe Events

COMMONLY ASKED QUESTIONS CONTINUED

Tentative list of questions to be added/revised by Working Group.

(If responses are different by peril, please note.)

V. Insurance Premiums

A. Are there safeguards against abrupt insurance premium increases related to a specific risk?
B. Are there any state laws or regulations governing "grace periods" for the payment of premiums after disasters?
C. Do insurers commonly use predictive modeling to price insurance and how has that affected premiums for consumers?
D. Increases in data allow insurers to segment their rates into more and more granular segments. This may increase the connection between insurance premium and risk, but also may decrease the effects of pooling. How are states addressing this issue?

VI. Rebuilding Restrictions

A. Are consumers who suffer a total loss required to build on the same property or can they use their insurance coverage to purchase a home in a different, potentially less risky area?

Draft: 12/5/19

Pet Insurance (C) Working Group
E-Vote
Dec. 5, 2019

The Pet Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee conducted an e-vote that concluded Dec. 5, 2019. The following Working Group members participated: Don Beatty, Chair (VA); Kendra Zoller, Vice-Chair (CA); George Bradner (CT); Warren Byrd (LA); Shirley Corbin (MD); LeAnn Cox (MO); Michael McKenney (PA); Matt Gendron (RI); and David Forte (WA).

1. Adopted its Interim Minutes

The Working Group conducted an e-vote to consider adoption of its interim minutes. The motion passed, with a majority of the Working Group members voting in favor of adopting its Nov. 7 (Attachment Five-A) and Oct. 1 (Attachment Five-B), minutes.

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Draft: 11/21/19

Pet Insurance (C) Working Group
Conference Call
November 7, 2019

The Pet Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met via conference call Nov. 7, 2019. The following Working Group members participated: Don Beatty, Chair (VA); Kendra Zoller, Vice Chair, and Risa Salat-Kolm (CA); Kristin Fabian and George Bradner (CT); Tom Travis (LA); Shirley Corbin (MD); LeAnn Cox (MO); Michael McKenney (PA); Matt Gendron and Beth Vollucci (RI); Anna Van Fleet and Jamie Gile (VT); and David Forte and Eric Slavich (WA). Also participating were: Ken Williamson (AL); Vincent Gosz and Tom Zuppan (AZ); Heather Droge and Tate Flott (KS); Chris Aufenthie (ND); Carl Sornson (NJ); Anna Krylova (NM); Rodney Beetch (OH); Cuc Nguyen (OK); Lee Hill (SC); Dan Nelson (SD); Kathy Stajduhar (UT); Jody Ullman (WI); and Donna Stewart (WY).

1. Discussed Sections 1–3 of the Draft Pet Insurance Model Law

Mr. Beatty asked for those that submitted comments on Section 1—Short Title to speak to those comments. Ms. Zoller said the term "health" should not be used in the title, as pet insurance is a property/casualty (P/C) line of business. Ms. Cox agreed that the term "health" could be confusing, and she suggested the use of the term "care." Mr. Forte said he agreed with not using the term "health" and would be agreeable to using the term "care" or not changing the title at all. Mr. Beatty asked if any Working Group members wanted to use the term "health" in the title. No Working Group members stated that they want to use the term "health." Ms. Zoller said the term "care" could sound like the care plans offered by pet stores, which are not pet insurance. Ms. Salat-Kolm suggested keeping the title as Pet Insurance Model Act. All Working Group members agreed on keeping the title as Pet Insurance Model Act.

Mr. Beatty asked for those that submitted comments on Section 2—Scope and Purpose to speak to those comments. Ms. Salat-Kolm said there was discussion about the term "resident" and if it referred to the pet or the pet owner. She said there is agreement that the term "resident" means pet owner. Mr. Forte said that changing the term "covers" to "issued to" would help clarify that the term "resident" indicates the pet owner. Mr. Gendron said there could be policies issued in a state to a pet owner that is not a resident of that state. Ms. Salat-Kolm said the language could be revised to "policies issued in this state." Mr. Gendron agreed with this language. John P. Fielding (North American Pet Health Insurance Association—NAPHIA) suggested removing the term "covers" and using language similar to other model laws, such as the *Travel Insurance Model Act* (#632). Lisa Brown (American Property Casualty Insurance Association—ACPIA) suggested changing the word "is" to "are" in Section 2 Part B to have correct subject and verb agreement. She also suggested changing the word "and" to "or" between the words "policies" and "certificates" in Section 2 Part B to clarify that companies can write either individual coverage, group policies or both. Mr. Travis and Ms. Van Fleet agreed.

Mr. Beatty asked for those that submitted comments on Section 3—Definitions to speak to those comments. Ms. Zoller said that definitions in the policy are helpful and the white paper, *A Regulator's Guide to Pet Insurance*, found that current definitions are inconsistent and confusing. Mr. McKenney asked if other lines of business in California have definitions mandated by statutes. He said that he does not believe it is common in other lines of business to mandate definitions language. Ms. Salat-Kolm said the California Fair Claims Settlement Practices Regulations have definitions. She said the better the definition, the clearer it would be to the consumer. Mr. McKenney wondered if having standard definitions would make it more difficult for companies to compete in the market. Mr. Zoller said the definitions have been in law in California, and they have received support from companies. Mr. McKenney said that with the exception of the standard fire policy, there is not another line of business that mandates standard definitions. Ms. Van Fleet said the development of minimum standard definitions is currently happening with supplemental health policies, so there is a framework for developing minimum standard-type definitions so there is a floor of protection for consumers. Mr. McKenney said that the current draft may be creating a model law that, including both Section 3—Definitions and Section 4—Disclosures, creates requirements that do not exist on any other P/C coverage, especially on an optional coverage; and it may be overly burdensome and keep small players out of the market. Ms. Zoller suggested that the Working Group look at current definitions from different companies to see how much they differ.

Ms. Cox said forcing companies to use the exact definitions within the model law would limit more innovative products. She said not all companies would have a website if they are application based. She said companies that want to have more laymen's term policies would not want to have such wordy definitions that could confuse the policyholder even more. She suggested adding wording to the definitions that would be substantially similar but not less favorable than what is stated in the model law. She said some policies are using more youthful language to appeal to younger policyholders. Mr. Gendron said he would find it appropriate for a policy to have more generous terms in the definitions than those currently in the model law. Mr. Beatty said the suggestion of the Working Group is to have minimum standard definitions. Ms. Brown said there are current policies with definitions that are substantially similar to those in the model law and requiring exact language would require refiling policies with the state insurance departments. She asked what would happen if a company wanted to develop a product that only covered a certain aspect of pet care, such as diagnosis, and if these required definitions would prevent that type of product from coming to market. Mr. Gendron said that policies that want to cover only certain aspects can still use these definitions and then explain in the disclosures section what is and is not covered by the policy. Ms. Zoller said there is language in the model that states, " nothing in this Act shall in any way prohibit or limit the types of exclusions pet insurers may use in their policies or require pet insurers to have any of the limitations or exclusions defined below." Mr. Fielding said there is a distinction between the definitions of things that would always be similar, such as "chronic condition," and the definition of things that could be different, such as "pet insurance" and "veterinary expenses." He said that despite exclusions and disclosures, the definition could lead the consumer to believe that something is covered even when it is not. He proposed using the term "eligible expenses" and letting the disclosures state what is and is not covered.

Mr. Forte suggested removing the term "pet" when speaking of pet insurers, as not all entities that use the term "pet insurer" are insurance companies selling pet insurance. He said the phrase "main page" may be confusing, as some companies do not exclusively sell pet insurance and it may not appear on their main page. Mr. Beatty said the Working Group will want to review all sections that reference websites.

Ms. Van Fleet said Vermont does not have a framework for approving group pet insurance products, so she suggested removing the language for group policies. Mr. Fielding asked if Vermont would consider keeping group policy language in the model. Mr. Forte said having the group language would make adoption of the model law difficult. Ms. Zoller said California currently covers those that have a certificate issued in a different state in a group policy. She asked if pet insurance offered as an employee benefit is offered as a group policy or an individual policy. Mr. Fielding said he has seen both group and individual policies as a part of employee benefits programs. Ms. Brown agreed that there are both types of policies currently written. Ms. Salat-Kolm suggested removing the terms "individual" and "group" to make the statement broader.

Mr. Forte said the definition for "chronic condition" should be clearer. He said he would like a further definition of the term than what is currently in the model law. Mr. Travis said the Working Group should look for a better definition of "chronic condition" from the health line of business.

The Working Group will continue discussion on these sections during future conference calls.

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

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Date: 10/11/19

Pet Insurance (C) Working Group
Conference Call
October 1, 2019

The Pet Insurance (C) Working Group of the Property and Casualty Insurance (C) Committee met via conference call Oct. 1, 2019. The following Working Group members participated: Don Beatty, Chair, and Jessica Baggarley (VA); Kendra Zoller, Vice Chair, and Risa Salat-Kolm (CA); Kristin Fabian and George Bradner (CT); Angela King (DC); Warren Byrd and Tom Travis (LA); Sheri Cullen (MA); Linas Glemza (MD); LeAnn Cox and Jeana Thomas (MO); Michael McKenney and John Lacek (PA); Matt Gendron and Beth Vollucci (RI); Anna Van Fleet (VT); and Jeff Baughman, Dan Forsman, David Forte and Eric Slavich (WA). Also participating were: Ken Williamson (AL); Carl Sornson (NJ); Anna Krylova (NM); Dan Nelson (SD); and Jody Ullman (WI).

1. Discussed Its Referrals Regarding the Collection of Additional Pet Insurance Data

Mr. Beatty said that during its June 27 conference call, the Working Group decided to ask NAIC staff to begin drafting referrals to the Blanks (E) Working Group and the Market Regulation and Consumer Affairs (D) Committee for data collection. He said the first referral had to do with collecting additional pet insurance data on the Financial Annual Statement and that there are a couple possibilities for collecting additional data. He said the data could be collected through the state page, likely as a subset of the inland marine line of business, or the premium, loss and other data could be collected through a supplement to the Financial Annual Statement that only pet insurance carriers would be required to complete. Mr. Gendron said that if pet insurance were added as a line on the state page, the companies that do not write pet insurance would leave that line as zero. Tracey Laws (Chubb) said that Chubb would prefer to report on a supplement because adding a line to the Financial Annual Statement would require system changes that would have associated costs. John Fielding (North American Pet Health Insurance Association—NAPHIA) said he would like to talk to NAPHIA's member insurance companies to get thoughts on the best way to report pet insurance data in the Financial Annual Statement. Mr. Beatty said industry representatives should submit comments on how they would prefer to report this data. Ms. Laws asked what data would be collected through a supplement. Aaron Brandenburg (NAIC) said the focus would be on the data collected in the columns of the state page, but the supplement could ask for more detail, such as number of exposures or policies. Mr. Gendron said he would agree with collecting policy count numbers.

Mr. Beatty said NAIC staff are working on collecting feedback on the process of collecting pet insurance data through the Market Conduct Annual Statement (MCAS). Mr, McKenney said that he is looking for standard MCAS data for pet insurance. Mr. Brandenburg said NAIC staff can work to gather complaints data, as well as work to collecting pet insurance data through the MCAS.

2. Discussed and Exposed Four Sections of the Draft Pet Insurance Model Law

Mr. Beatty said the Request for NAIC Model Law Development asking for permission to begin work on a pet insurance model law was adopted by the Executive (EX) Committee at the Summer National Meeting, so the Working Group can now begin work on developing a model law. He said the Working Group chair, vice chair and NAIC staff put together a document to help start discussion on the model law draft and that after each conference call, there will be a comment period to obtain opinions on each section of the model law draft.

Mr. Gendron said in reference to Section 1—Short Title, the description should read "Pet Insurance Act." He also said in reference to Section 2—Scope and Purpose, Part B that "Pet Insurance that covers any resident of this state" should be changed to "Pet Insurance policies that are issued to any resident of this state" to clarify that the policy is issued to the named resident of the state. He also suggested replacing the "and" separators with "or." Mr. Fielding (NAPHIA) said the draft appears to be based on a bill that was vetoed in California before the current California law was enacted. Ms. Zoller said the draft is just a starting point and that the two parts of the law that were vetoed are Section 7—Preexisting Conditions and Section 8—Reimbursement Benefits. Mr. Fielding also suggested, in reference to Section 1—Short Title, the description should read "Pet Health Insurance Act." Ms. Zoller said the addition of the word "health" could be confusing since this is a property/casualty (P/C) line of business. Ms. Salat-Kolm agreed that this type of policy does not only cover things that would be considered health insurance. Mr. Fielding said the term "health" would help differentiate between other types of coverages that cover liabilities of owning a pet. Mr. Byrd also agreed that the term "health" would help in clarifying the purpose of this line of business. Ms. Cox suggested using the term "care" in place of "health" so as not to confuse with traditional health insurance.

Lisa Brown (American Property Casualty Insurance Association—ACPIA) said the introductory paragraph of Section 3—Definitions seems to suggest that the definitions in a policy would have to be exactly those that appear in the model. She said it would be helpful if the definitions would be able to be substantially similar. Mr. Byrd asked if there were issues with any of the terms as currently defined. Ms. Brown said she has heard concerns that the "veterinary expenses" definition could be too limiting for some companies. Mr. McKenney said he is not sure if other policy types include terms that must be defined in an exact way. Ms. Law said that mandating language in an insurance policy is limiting to competition in the marketplace. Ms. Zoller said the definitions as defined in Section 3 are current law in California. Mr. McKenney said the model law draft, as is, is too restricting compared to other lines of business.

Mr. Forte said he is not sure if the term "group" should be included in Section 3—Definitions Part D as he is unaware of P/C insurance being sold as a group policy. Ms. Cox said Missouri does not allow for group insurance in the pet insurance market. Mr. Beatty asked what the regulatory objections would be to allowing group insurance. Mr. Bradner said the objection would have to do with how cancellations and non-renewals are handled. Mr. McKenney agreed and said it would change the nature of the business and the rate filing laws in many states. Mr. Byrd asked if any insurers currently sell group pet insurance policies. Mr. Fielding (NAPHIA) said he will check with member insurance companies if policies are currently sold as group or only individual.

Mr. Gendron suggested reducing the language found in Section 3—Definitions Part F and inserting bracketed language referencing the appropriate state licensing authority or statute.

Gary Henning (Zurich Insurance) asked if Section 4—Disclosures applies to only the insurer or if it also applies to a program administrator selling the insurer's policies. Mr. Byrd asked if those administrators would be the agent for the insurer. Mr. Henning said these companies work as brokers. Mr. Beatty said it would be the insurer's responsibility to get the information to the consumer. Mr. Gendron said state insurance regulators put restrictions on insurers and agreed it is the insurer's responsibility. He also said it is important to include disclosures on preexisting conditions and hereditary disorders if they are excluded in the policy.

Mr. Beatty said the disclosures will be important to include because many of the complaints received about pet insurance policies are regarding consumers not knowing what is excluded in a policy. Mr. McKenney said the disclosure requirements are more restricting than those currently in place in mandatory lines of insurance like automobile and homeowners. Ms. Salat-Kolm said one of the biggest problems with pet insurance is that people do not know what they are buying. Mr. Bradner agreed that it is a problem when exclusions are not disclosed. Mr. McKenney said there is no data to determine if this is a problem. Ms. Zoller said there are complaints in California and that the *A Regulator's Guide to Pet Insurance* white paper addressed some of these problems. Mr. Byrd said the Working Group should not wait for problems to occur before implementing a law to address potential issues. Mr. Gendron said pet insurance has evolved in the last 15 years and that consumer expectations may be too close to human health insurance.

Mr. Gendron said there may be a misconception of what should be included in pet insurance and if a wellness product would fit into an insurance policy. Ms. Baggarley said Virginia currently sees wellness programs included in insurance policies.

Mr. Beatty said Section 1—Short Title, Section 2—Scope and Purpose, Section 3—Definitions and Section 4—Disclosures of the draft pet insurance model law will be exposed for a 30-day public comment period ending October 31, 2019.

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

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Draft: 12/13/19

Terrorism Insurance Implementation (C) Working Group
Austin, Texas
December 8, 2019

The Terrorism Insurance Implementation (C) Working Group of the Property and Casualty Insurance (C) Committee met in Austin, TX, Dec. 8, 2019. The following Working Group members participated: Marshal Bozzo, Chair (NY); Michael Ricker (AK); George Bradner (CT); Sean O'Donnell (DC); Virginia Christy (FL); Judy Mottar (IL); Heather Droge (KS); Angela Nelson (MO); Fred Fuller (NC); Cuc Nguyen (OK); Beth Vollucci (RI); J'ne Byckovski and Mark Worman (TX); Rebecca Nichols (VA); and Rosemary Raszka (VT).

1. <u>Adopted its Summer National Meeting Minutes</u>

Mr. Bradner made a motion, seconded by Ms. Nelson, to adopt the Working Group's Aug. 4 minutes (*see NAIC Proceedings – Summer 2019, Property and Casualty Insurance (C) Committee, Attachment Four*). The motion passed unanimously.

2. <u>Discussed the Reauthorization of TRIA</u>

Brooke Stringer (NAIC) said the federal Terrorism Risk Insurance Act (TRIA) is set to expire Dec. 31, 2020, and the NAIC has seen significant Congressional action on TRIA reauthorization legislation. She said the U.S. House of Representatives (House) passed a seven year TRIA reauthorization bill (H.R. 4634), which does not make any substantial changes to the program. The bill would require the Government Accountability Office (GAO) to conduct a study on cyber terrorism risks, including an analysis of whether the states' definition of cyber liability under a property and casualty line of insurance is adequate coverage for an act of cyber terrorism. It would also require biennial U.S. Department of the Treasury (Treasury Department) reporting on affordability and availability of terrorism risk insurance for places of worship. Ms. Stringer said the U.S. Senate (Senate) Committee on Banking, Housing, and Urban Affairs approved by voice vote a seven year reauthorization bill (S. 2877), which tracks the House version. The bill may add a study on nuclear, biological, chemical and radiological (NBCR) coverage as the bill moves forward.

Ms. Stringer noted that the NAIC supports both the House and Senate bills, and it sent letters of support, which are posted on the NAIC website. She said there is widespread support from the insurance industry and all sectors of the economy that is spurring Congressional action. She said, given the strong support in both Congressional chambers, TRIA reauthorization legislation could be in a good position to be attached to the end-of-year spending package or potentially adopted by the Senate in December or January 2020.

Ms. Stringer also reported that Director Chlora Lindley-Myers (MO) testified on behalf of the NAIC at an October joint insurance and national security subcommittee hearing at the House Committee on Financial Services. She underscored state insurance regulators' support for the program and urged prompt Congressional action on a long-term reauthorization. She also highlighted some findings from the state insurance regulator data calls. Cyber coverage was a topic that received much attention at the hearing.

3. <u>Heard a Report on the 2020 Terrorism Risk Insurance Data Call</u>

Mr. Bozzo said workers' compensation data will be requested from the National Council on Compensation Insurance (NCCI) and independent bureaus as it has in the past, likely with a letter being distributed in January 2020 asking for data to be submitted by March 1, 2020.

Mr. Bozzo said information about the joint state insurance regulator/Treasury Department data call will be distributed early next year with a due date of May 15, 2020, the same as past years. He said there may be a change to the modeled loss question within the data call. He reported that state insurance regulators and Federal Insurance Office (FIO) staff may begin holding state insurance regulator meetings or conference calls to discuss potential changes to the data call in future years. Based on possible changes to TRIA, future data calls may ask for data on cyber coverages or religious institutions. Mr. Bozzo said state insurance regulators expect that the State Supplement will continue in 2020 as in past years.

4. <u>Heard a Report on the 2019 Data Call</u>

Aaron Brandenburg (NAIC) reported on terrorism risk insurance data received in the State Supplement portion of the data call that was due Sept. 30. He said most files have been received and the vast majority of the files have passed the basic data quality checks. He said the NAIC is following up with companies that did not file or that submitted incorrect data elements. He said the most common error was in terrorism or total exposures where some companies had obvious errors.

In terms of total premiums reported, companies submitted nearly $38 billion in premium in allied lines, fire, commercial multiperil–non liability, and boiler and machinery lines of business. The total terrorism premium submitted was about $920 million, making the terrorism premium approximately 2.4% of the total premium. Mr. Brandenburg said these figures are comparable to what has been reported previously in data calls.

The data call found that most terrorism premium, over 90%, was written as an endorsement instead of a standalone policy. Most premium was categorized as certified, about six times as much as what was reported as both certified and non-certified. Very little of the premium was labeled as non-certified. Because the exposure data is still not credible, conclusions are not able to be drawn, but it appears that commercial multiperil–non liability has the highest portion of exposures covered by terrorism insurance.

Mr. Brandenburg said the NAIC will continue to contact companies and clean the data. The next step will then be to look at statewide and ZIP Code results in looking at premium and exposure amounts and take-up rates.

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

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Draft: 11/18/19
Adopted by the Executive (EX) Committee and Plenary, TBD
Adopted by the Property and Casualty Insurance (C) Committee, 12/9/19

2020 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 and rehabilitation proceedings related to risk-retention groups (RRGs). If warranted, make appropriate 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:
        1. Serve as a forum for discussing issues related to the interaction of federal crop insurance programs with state insurance regulation.
        2. Review law changes and court decisions and, if warranted, make appropriate changes to the *Federal Crop Insurance Program Handbook: A Guide for Insurance Regulators.*
        3. Monitor the regulatory information exchanges between the FCIC and state insurance regulators, as well as the FCIC and the NAIC, and make recommendations for improvement or revisions, as needed.
    I. Report on the private flood insurance market using data obtained from the state insurance regulator private flood insurance data call.

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. Collect aggregated insurance availability and coverage gap information, as well as other cannabis and hemp insurance-related data, to then publicly share in a released report by the end of 2021.

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.
    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. Provide a forum for discussing various issues related to catastrophe modeling, and monitor issues that will result in changes to the *Catastrophe Computer Modeling Handbook*.
F. Investigate and recommend ways the NAIC can assist states in responding to disasters, and discuss issues surrounding loss mitigation. Update the *State Disaster Response Plan*, as needed, so that it provides a blueprint for action by the states to respond to catastrophic events.
G. Continue to examine ways to help state insurance regulators facilitate the private flood insurance market.
H. Study, in coordination with other NAIC task forces and working groups, earthquake matters of concern to state insurance regulators. Consider various innovative earthquake insurance coverage options aimed at improving take-up rates.

4. The **Climate Risk and Resilience (C) Working Group** will:
   A. Engage with industry and stakeholders in the U.S. and abroad on climate related risk and resiliency issues.
   B. Investigate and recommend measures to reduce risks of climate change related to catastrophic events.
   C. Identify insurance and other financial mechanisms to protect infrastructure and reduce exposure to the public.
   D. Identify sustainability, resilience and mitigation issues and solutions related to the insurance industry.
   E. Evaluate private-public partnerships to improve insurance market capacity related to catastrophe perils.
   F. Investigate and receive information regarding the use of modeling by carriers and their reinsurers concerning climate risk.
   G. Review the impact of climate change on insurers through presentations by interested parties.
   H. Review innovative insurer solutions to climate risk, including new insurance products through presentations by interested parties.

5. The **Lender-Placed Insurance Model Act (C) Working Group** will:
   A. Complete the drafting and adoption of a new model law concerning lender-placed insurance as it relates to mortgages.

6. The **Pet Insurance (C) Working Group** will:
   A. Complete the development of a model law or guideline to establish appropriate regulatory standards for the pet insurance industry.

7. 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 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.

8. The **Transparency and Readability of Consumer Information (C) Working Group** will:
   A. Study and evaluate actions that will improve the capacity of consumers to comparison shop on the basis of differences in coverage provided by different insurance carriers offering personal lines products.
   B. Systematize and improve presale disclosures of coverage.
   C. Facilitate consumers' capacity to understand the content of insurance policies and assess differences in insurers' policy forms.
   D. Assist other groups with drafting language included within consumer-facing documents.
   E. Study and discuss whether there is a need for consumer disclosures regarding significant premium increases on property/casualty (P/C) insurance products.
   F. Update and develop webpage and mobile content for *A Shopping Tool for Homeowners Insurance* and *A Shopping Tool for Automobile Insurance*.
   G. Discuss and draft a disclosure for state insurance regulators to consider requiring to be added to homeowners' policies regarding the fact that homeowners policies do not cover losses from flood, earthquake or other specified disasters

NAIC Support Staff: Aaron Brandenburg/Kris DeFrain

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Draft: 11/18/2019
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. 9, 2018

2020 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 maintaining the financial health of P/C insurers; ensuring that P/C insurance rates are not excessive, inadequate or unfairly discriminatory; and 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 regarding casualty actuarial and statistical matters. Monitor the activities, including the development of financial services regulations and statistical (including disaster) reporting, regarding casualty actuarial issues.
      1. Property and Casualty Insurance (C) Committee – ratemaking, reserving or data issues.
      2. 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 Statement of Actuarial Opinion (SAO) and Actuarial Opinion Summary Supplement.
      3. Capital Adequacy (E) Task Force – P/C risk-based capital (RBC) report.
      4. Group Solvency Issues (E) Working Group and ORSA Implementation (E) Subgroup – Own Risk and Solvency Assessment (ORSA).
      5. 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 *SSAP No. 65—Property and Casualty Contracts*.
      6. Speed to Market (EX) Working Group – P/C actuarial sections of the *Product Filing Review Handbook*.
   B. Monitor national casualty actuarial developments and consider regulatory implications.
      1. Casualty Actuarial Society (CAS) – Statements of Principles and *Syllabus of Basic Education*.
      2. American Academy of Actuaries (Academy) – Standards of Practices, Council on Professionalism, and Casualty Practice Council.
      3. Society of Actuaries (SOA) – general insurance track's basic education.
      4. 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. Work with the CAS and SOA to identify: 1) whether the P/C Appointed Actuaries' logs of continuing education (CE) should contain any particular categorization to assist regulatory review; 2) what types of learning P/C Appointed Actuaries are using to meet CE requirements for "Specific Qualification Standards" today; and 3) whether more specificity should be added to the P/C Appointed Actuaries' CE requirements to ensure that CE is aligned with the educational needs for a P/C Appointed Actuary.
   E. In coordination with the Big Data (EX) Working Group:
      1. Draft and propose changes to the *Product Filing Review Handbook* to include best practices for the review of predictive models and analytics filed by insurers to justify rates.
      2. Draft and propose state guidance (e.g., information, data) for rate filings that are based on complex predictive models.
      3. Facilitate training and the sharing of expertise through predictive analytics webinars (Book Club).

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:
      1. *Financial Analysis Handbook.*

    2. *Financial Condition Examiners Handbook.*
    3. *Annual Statement Instructions—Property/Casualty*.
    4. Regulatory guidance to appointed actuaries and companies.
    5. 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.
      1. *Dwelling Fire, Homeowners Owner-Occupied, and Homeowners Tenant and Condominium/Cooperative Unit Owner's Insurance.*
      2. *Auto Insurance Database.*
      3. *Competition Database Report.*
      4. *Report on Profitability by Line by State.*

NAIC Support Staff: Kris DeFrain/Jennifer Gardner/Libby Crews

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Draft: 11/18/19
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, TBD

2020 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 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 that 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/Bob Schump

Draft: 11/18/19
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. 25, 2019

2020 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. Monitor issues and developments occurring in 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 and other remedies. Report results at each national meeting.
   C. Consult with the Consumer Financial Protection Bureau (CFPB) and other agencies responsible for information, education and disclosure for mortgage lending, closing and settlement services about the role of title insurance in the real estate transaction process.
   D. Consider the effectiveness of changes in financial reporting by title insurance companies and identify further improvements and clarifications to blanks, instructions, Statement of Statutory Accounting Principles (SSAPs), solvency tools, and other matters, as necessary. Coordinate efforts with the Statutory Accounting Principles (E) Working Group.
   E. Revise the *Title Insurance Consumer Shopping Tool Template* to include questions and answers about title insurance-related fraud topics, including but not limited to, closing protection letters and wire fraud.
   F. Evaluate the effectiveness of closing protection letters, including but not limited to, intent, state regulation and requirements, consumer protections offered and excluded, and potential alternatives for coverage.

NAIC Support Staff: Anne Obersteadt/Aaron Brandenburg

Draft: 11/18/19
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. 24, 2019

2020 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 activities of the NAIC/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 growth of the assigned risk pools changes dramatically.
   D. Follow workers' compensation issues regarding cannabis in coordination with the Cannabis Insurance (C) Working Group.

2. The **NAIC/IAIABC Joint (C) Working Group** will:
   A. Study issues of mutual concern to insurance regulators and the International Association of Industrial Accident Boards and Commissions (IAIABC). Review relevant IAIABC model laws and white papers and consider possible charges in light of the Working Group's recommendations.
   B. Complete the drafting and adoption of the white paper, *Changing Employee Relationships* – Completion date anticipated in early 2020.

NAIC Support Staff: Sara Robben/Aaron Brandenburg

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NAIC BLANKS (E) WORKING GROUP

Blanks Agenda Item Submission Form

DATE: November 27, 2019	**FOR NAIC USE ONLY**
	Agenda Item #__________
	Year __________
CONTACT PERSON: Aaron Brandenburg	Changes to Existing Reporting [ ]
	New Reporting Requirement [ ]
TELEPHONE: 816 783 8271	**REVIEWED FOR ACCOUNTING PRACTICES AND PROCEDURES IMPACT**
EMAIL ADDRESS: abrandenburg@naic.org	No Impact [ ]
ON BEHALF OF: Property & Casualty Insurance (C) Cmte	Modifies Required Disclosure [ ]
NAME:	**DISPOSITION**
TITLE:	[ ] Rejected For Public Comment
	[ ] Referred To Another NAIC Group
	[ ] Received For Public Comment
AFFILIATION:	[ ] Adopted Date __________
	[ ] Rejected Date __________
ADDRESS:	[ ] Deferred Date __________
	[ ] Other (Specify) __________

BLANK(S) TO WHICH PROPOSAL APPLIES

[x] **ANNUAL STATEMENT**	[ ] **QUARTERLY STATEMENT**	
[ ] **INSTRUCTIONS**	[ ] **CROSSCHECKS**	[x] **BLANK**
[ ] Life and Accident & Health	[x] Property/Casualty	[ ] Health
[ ] Separate Accounts	[ ] Fraternal	[ ] Title
[ ] Other Specify		

Anticipated Effective Date: Annual 2021

IDENTIFICATION OF ITEM(S) TO CHANGE

A new Private Flood Insurance Supplement collecting residential and commercial private flood insurance data and revisions to the Credit Insurance Experience Exhibit (CIEE) to collect lender-placed flood coverages.

REASON, JUSTIFICATION FOR AND/OR BENEFIT OF CHANGE**

The State Page currently collects private flood insurance data but does not split residential from commercial coverages. Regulators, as well as industry and consumers, have a desire to better monitor and assess the growth of the residential private flood insurance market as that market begins to grow. A new Supplement will separate residential from commercial as well as capturing stand alone/endorsement and first dollar/excess policy information. The revisions to the CIEE will allow for the collection of lender-placed flood coverages in order to get a more complete picture of the private flood insurance market.

NAIC STAFF COMMENTS

Comment on Effective Reporting Date:____________________

Other Comments:

**** This section must be completed on all forms.** **Revised 6/13/2009**

PRIVATE FLOOD INSURANCE SUPPLEMENT
For The Year Ended December 31, 2020
(To Be Filed by **March 31**)

Affix Bar Code Above

NAIC Group Code .... NAIC Company Code...................................

Company Name
....

Part 1 - Interrogatories

Private Flood Insurance Coverage:

1.	Does the reporting entity write any stand-alone first-dollar residential private flood	Yes [ ] No [ ]
	If yes, complete Part 2	
2.	Does the reporting entity write any stand-alone excess residential private flood?	Yes [ ] No [ ]
	If yes, complete Part 3	
3.	Does the reporting entity write any first-dollar residential private flood provided as an endorsement?	Yes [ ] No [ ]
	If yes, complete Part 4	
4.	Does the reporting entity write any excess residential private flood insurance provided as an endorsement?	Yes [ ] No [ ]
	If yes, complete Part 5	
5.	Does the reporting entity write any commercial private flood insurance provided as either a stand-alone or package policy? (include both first-dollar and excess)	Yes [ ] No [ ]
	If yes, complete Part 6	

SUPPLEMENT FOR THE YEAR OF THE

Part 2 – Standalone Residential Private Flood Policies
Policy and Claims Data
First Dollar

	States, Etc.		Direct Written Premium	Direct Premium Earned	Direct Losses Paid	Direct Losses Case Reserves	Defense and Cost Containment Paid	Defense and Cost Containment Case Reserves	Number of Policies In Force	Number of Claims Reported	Number of Claims Open	Number of Claims Closed with Payment	% of Policies Written in a SFHA
1	Alabama	AL	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	100.0
2	Alaska	AK											
3	Arizona	AZ											
4	Arkansas	AR											
5	California	CA											
6	Colorado	CO											
7	Connecticut	CT											
8	Delaware	DE											
9	District of Columbia	DC											
10	Florida	FL											
11	Georgia	GA											
12	Hawaii	HI											
13	Idaho	ID											
14	Illinois	IL											
15	Indiana	IN											
16	Iowa	IA											
17	Kansas	KS											
18	Kentucky	KY											
19	Louisiana	LA											
20	Maine	ME											
21	Maryland	MD											
22	Massachusetts	MA											
23	Michigan	MI											
24	Minnesota	MN											
25	Mississippi	MS											
26	Missouri	MO											
27	Montana	MT											
28	Nebraska	NE											
29	Nevada	NV											
30	New Hampshire	NH											
31	New Jersey	NJ											
32	New Mexico	NM											
33	New York	NY											
34	North Carolina	NC											
35	North Dakota	ND											
36	Ohio	OH											
37	Oklahoma	OK											
38	Oregon	OR											
39	Pennsylvania	PA											
40	Rhode Island	RI											
41	South Carolina	SC											
42	South Dakota	SD											
43	Tennessee	TN											
44	Texas	TX											
45	Utah	UT											
46	Vermont	VT											
47	Virginia	VA											
48	Washington	WA											
49	West Virginia	WV											
50	Wisconsin	WI											
51	Wyoming	WY											
52	American Samoa	AS											
53	Guam	GU											
54	Puerto Rico	PR											
55	U.S. Virgin Islands	VI											
56	Northern Mariana Islands	MP											
57	Totals												

SUPPLEMENT FOR THE YEAR OF THE

Part 3 - Standalone Residential Private Flood Policies
Policy and Claims Data
Excess

	States, Etc.		Direct Written Premium	Direct Premium Earned	Direct Losses Paid	Direct Losses Case Reserves	Defense and Cost Containment Paid	Defense and Cost Containment Case Reserves	Number of Policies In Force	Number of Claims Reported	Number of Claims Open	Number of Claims Closed with Payment	% of Policies Written in a SFHA
1	Alabama	AL	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	100.0
2	Alaska	AK											
3	Arizona	AZ											
4	Arkansas	AR											
5	California	CA											
6	Colorado	CO											
7	Connecticut	CT											
8	Delaware	DE											
9	District of Columbia	DC											
10	Florida	FL											
11	Georgia	GA											
12	Hawaii	HI											
13	Idaho	ID											
14	Illinois	IL											
15	Indiana	IN											
16	Iowa	IA											
17	Kansas	KS											
18	Kentucky	KY											
19	Louisiana	LA											
20	Maine	ME											
21	Maryland	MD											
22	Massachusetts	MA											
23	Michigan	MI											
24	Minnesota	MN											
25	Mississippi	MS											
26	Missouri	MO											
27	Montana	MT											
28	Nebraska	NE											
29	Nevada	NV											
30	New Hampshire	NH											
31	New Jersey	NJ											
32	New Mexico	NM											
33	New York	NY											
34	North Carolina	NC											
35	North Dakota	ND											
36	Ohio	OH											
37	Oklahoma	OK											
38	Oregon	OR											
39	Pennsylvania	PA											
40	Rhode Island	RI											
41	South Carolina	SC											
42	South Dakota	SD											
43	Tennessee	TN											
44	Texas	TX											
45	Utah	UT											
46	Vermont	VT											
47	Virginia	VA											
48	Washington	WA											
49	West Virginia	WV											
50	Wisconsin	WI											
51	Wyoming	WY											
52	American Samoa	AS											
53	Guam	GU											
54	Puerto Rico	PR											
55	U.S. Virgin Islands	VI											
56	Northern Mariana Islands	MP											
57	Totals												

SUPPLEMENT FOR THE YEAR OF THE

Part 4 - Residential Private Flood Policy Endorsements
Policy and Claims Data
First Dollar

	States, Etc.		Direct Written Premium	Direct Premium Earned	Direct Losses Paid	Direct Losses Case Reserves	Defense and Cost Containment Paid	Defense and Cost Containment Case Reserves	Number of Policies In Force	Number of Claims Reported	Number of Claims Open	Number of Claims Closed with Payment	% of Policies Written in a SFHA
1	Alabama	AL	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	100.0
2	Alaska	AK											
3	Arizona	AZ											
4	Arkansas	AR											
5	California	CA											
6	Colorado	CO											
7	Connecticut	CT											
8	Delaware	DE											
9	District of Columbia	DC											
10	Florida	FL											
11	Georgia	GA											
12	Hawaii	HI											
13	Idaho	ID											
14	Illinois	IL											
15	Indiana	IN											
16	Iowa	IA											
17	Kansas	KS											
18	Kentucky	KY											
19	Louisiana	LA											
20	Maine	ME											
21	Maryland	MD											
22	Massachusetts	MA											
23	Michigan	MI											
24	Minnesota	MN											
25	Mississippi	MS											
26	Missouri	MO											
27	Montana	MT											
28	Nebraska	NE											
29	Nevada	NV											
30	New Hampshire	NH											
31	New Jersey	NJ											
32	New Mexico	NM											
33	New York	NY											
34	North Carolina	NC											
35	North Dakota	ND											
36	Ohio	OH											
37	Oklahoma	OK											
38	Oregon	OR											
39	Pennsylvania	PA											
40	Rhode Island	RI											
41	South Carolina	SC											
42	South Dakota	SD											
43	Tennessee	TN											
44	Texas	TX											
45	Utah	UT											
46	Vermont	VT											
47	Virginia	VA											
48	Washington	WA											
49	West Virginia	WV											
50	Wisconsin	WI											
51	Wyoming	WY											
52	American Samoa	AS											
53	Guam	GU											
54	Puerto Rico	PR											
55	U.S. Virgin Islands	VI											
56	Northern Mariana Islands	MP											
57	Totals												

SUPPLEMENT FOR THE YEAR OF THE

Part 5 - Residential Private Flood Policy Endorsements
Policy and Claims Data
Excess

	States, Etc.		Direct Written Premium	Direct Premium Earned	Direct Losses Paid	Direct Losses Case Reserves	Defense and Cost Containment Paid	Defense and Cost Containment Case Reserves	Number of Policies In Force	Number of Claims Reported	Number of Claims Open	Number of Claims Closed with Payment	% of Policies Written in a SFHA
1	Alabama	AL	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	100.0
2	Alaska	AK											
3	Arizona	AZ											
4	Arkansas	AR											
5	California	CA											
6	Colorado	CO											
7	Connecticut	CT											
8	Delaware	DE											
9	District of Columbia	DC											
10	Florida	FL											
11	Georgia	GA											
12	Hawaii	HI											
13	Idaho	ID											
14	Illinois	IL											
15	Indiana	IN											
16	Iowa	IA											
17	Kansas	KS											
18	Kentucky	KY											
19	Louisiana	LA											
20	Maine	ME											
21	Maryland	MD											
22	Massachusetts	MA											
23	Michigan	MI											
24	Minnesota	MN											
25	Mississippi	MS											
26	Missouri	MO											
27	Montana	MT											
28	Nebraska	NE											
29	Nevada	NV											
30	New Hampshire	NH											
31	New Jersey	NJ											
32	New Mexico	NM											
33	New York	NY											
34	North Carolina	NC											
35	North Dakota	ND											
36	Ohio	OH											
37	Oklahoma	OK											
38	Oregon	OR											
39	Pennsylvania	PA											
40	Rhode Island	RI											
41	South Carolina	SC											
42	South Dakota	SD											
43	Tennessee	TN											
44	Texas	TX											
45	Utah	UT											
46	Vermont	VT											
47	Virginia	VA											
48	Washington	WA											
49	West Virginia	WV											
50	Wisconsin	WI											
51	Wyoming	WY											
52	American Samoa	AS											
53	Guam	GU											
54	Puerto Rico	PR											
55	U.S. Virgin Islands	VI											
56	Northern Mariana Islands	MP											
57	Totals												

Part 6 - Commercial Private Flood Policies
Policy and Claims Data
First Dollar and Excess

	States, Etc.		Direct Written Premium	Direct Premium Earned	Direct Losses Paid	Direct Losses Case Reserves	Defense and Cost Containment Paid	Defense and Cost Containment Case Reserves	Number of Policies In Force	Number of Claims Reported	Number of Claims Open	Number of Claims Closed with Payment	% of Policies Written in a SFHA
1	Alabama	AL	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	999,999,999,999	100.0
2	Alaska	AK											
3	Arizona	AZ											
4	Arkansas	AR											
5	California	CA											
6	Colorado	CO											
7	Connecticut	CT											
8	Delaware	DE											
9	District of Columbia	DC											
10	Florida	FL											
11	Georgia	GA											
12	Hawaii	HI											
13	Idaho	ID											
14	Illinois	IL											
15	Indiana	IN											
16	Iowa	IA											
17	Kansas	KS											
18	Kentucky	KY											
19	Louisiana	LA											
20	Maine	ME											
21	Maryland	MD											
22	Massachusetts	MA											
23	Michigan	MI											
24	Minnesota	MN											
25	Mississippi	MS											
26	Missouri	MO											
27	Montana	MT											
28	Nebraska	NE											
29	Nevada	NV											
30	New Hampshire	NH											
31	New Jersey	NJ											
32	New Mexico	NM											
33	New York	NY											
34	North Carolina	NC											
35	North Dakota	ND											
36	Ohio	OH											
37	Oklahoma	OK											
38	Oregon	OR											
39	Pennsylvania	PA											
40	Rhode Island	RI											
41	South Carolina	SC											
42	South Dakota	SD											
43	Tennessee	TN											
44	Texas	TX											
45	Utah	UT											
46	Vermont	VT											
47	Virginia	VA											
48	Washington	WA											
49	West Virginia	WV											
50	Wisconsin	WI											
51	Wyoming	WY											
52	American Samoa	AS											
53	Guam	GU											
54	Puerto Rico	PR											
55	U.S. Virgin Islands	VI											
56	Northern Mariana Islands	MP											
57	Totals												

PART 4 – CREDIT PROPERTY INSURANCE

	1 Creditor Placed Home Hazard Single Interest	2 Creditor Placed Home Hazard Dual Interest	3 Creditor Placed Wind Only Single Interest	4 Creditor Placed Wind Only Dual Interest	5 Creditor Placed Home Flood Only First Dollar	6 Creditor Placed Home Flood Only Excess	7 Creditor Placed Auto-Single Interest	8 Creditor Placed Auto- Dual Interest	9 Personal Property-Single Interest	10 Personal Property-Dual Interest	11 Other (a)
1. Earned Premiums:											
1.1 Gross written premiums											
1.2 Refunds on terminations											
1.3 Net written premiums (Lines 1.1-1.2)											
1.4 Premium reserves, start of period											
1.5 Premium reserves, end of period											
1.6 Actual earned premiums (Lines 1.3+1.4-1.5)											
1.7 Earned premiums at prima facie rates											
2. Incurred Claims:											
2.1 Claims paid											
2.2 Total claim reserves, start of period											
2.3 Total claim reserves, end of period											
2.4 Incurred claims (Lines 2.1-2.2+2.3)											
3. Incurred Compensation:											
3.1 Commissions and service fees incurred											
3.2 Other incurred compensation											
3.3 Total incurred compensation (Lines 3.1+3.2)											
3.4 Commissions/service fee percentage (Lines 3.1/1.3)	%	%	%	%	%	%	%	%	%	%	%
3.5 Other incurred compensation percentage (Lines 3.2/1.6)	%	%	%	%	%	%	%	%	%	%	%
4. Loss Percentage:											
4.1 Actual loss percentage (Lines 2.4/1.6)	%	%	%	%	%	%	%	%	%	%	%
4.2 Loss percentage at prima facie rates (Lines 2.4/1.7)	%	%	%	%	%	%	%	%	%	%	%
5. Incurred Loss Adjustment Expense:											
5.1 Defense and cost containment expenses incurred											
5.2 Adjusting and other expenses incurred											
6. Written Exposures											
7. Earned Exposures											

(a) Provide a description of "other" coverages (including their percent of Line 1.6, Column 7): ______________________________

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December 9, 2019

The following document provides information regarding ways for a department of insurance (DOI) to encourage the growth of private residential flood insurance.

Currently, the Property and Casualty Insurance (C) Committee is considering enhancing the collection of private flood data. These efforts include: 1) collecting information that separates residential private flood insurance premiums from commercial private flood insurance premiums; and 2) breaking the information down by stand-alone policies and endorsements to homeowners insurance policies, by both first dollar and excess. Additionally, the proposed supplement will provide claims and policy data.

Furthermore, it has been proposed that lender-placed flood insurance data be collected on the Credit Insurance Experience Exhibit and private flood insurance data be collected for the surplus lines market through the Surplus Lines (C) Working Group.

The Market Regulation and Consumer Affairs (D) Committee has developed a private flood insurance line for the Market Conduct Annual Statement (MCAS), which will collect 2020 data in 2021. The data is expected to follow the same format as the homeowners MCAS with a focus on private flood insurance.

Other considerations for the Property and Casualty Insurance (C) Committee include:

- Considering ways to incorporate a conforming conditions clause in the form approval process.

- Referring state law conflicts relating to statute of limitations and cancellation/renewal provisions to the Government Relations Leadership Council (GRLC) to resolve at the federal level.

National Association of Insurance Commissioners

CONSIDERATIONS FOR STATE INSURANCE REGULATORS IN BUILDING THE PRIVATE FLOOD INSURANCE MARKET

DECEMBER 9, 2019

Table of Contents

BACKGROUND AND PURPOSE

State insurance regulators have first-hand experience with the devastating effects that floods have on the constituents in their states, and they believe it is critical that flood insurance is both available and affordable in order to encourage purchases that thereby protect homes, businesses and personal property. Although private flood insurance is being written largely in the commercial market, this paper will focus on the residential flood insurance market.

For more than a half-century, the federal government's National Flood Insurance Program (NFIP) has been the primary player in the residential flood insurance market, underwriting most policies while private insurers have largely focused on a relatively small residential supplemental market. While the NFIP has done a laudable job in making flood insurance available for millions of residential properties, a significant flood insurance gap exists across the U.S.[1] with flood event after flood event revealing a substantial number of damaged properties being uninsured.[2] A Federal Emergency Management Agency (FEMA) analysis from 2018 indicates that 69% of American homes in high-risk flood zones do not have flood insurance. Concurrently, there has been a heightened interest amongst private carriers to expand their residential flood insurance offerings, greatly assisted by the development of more sophisticated flood mapping and risk modeling technologies.

Funding for continuation of the NFIP expired in September 2017, and since then, the U.S. Congress has passed numerous short-term extensions, and more are expected. The federal Biggert-Waters Flood Insurance Reform Act of 2012 (Biggert-Waters) requires lenders to accept private flood insurance policies meeting certain requirements just as they would an NFIP policy to satisfy the federal mandatory purchase mortgage requirement. The NAIC has been engaged legislatively and with the federal banking regulators on their rulemaking.[3] In February 2019, after six years of deliberation, the federal banking regulators finalized their rule. The final rule provides the requirements[4] for lenders to accept provide flood insurance policies. The rule also provides lenders the option to accept private flood insurance policies that do not meet the mandatory acceptance requirements set forth in Biggert-Waters subject to certain conditions.

State insurance regulators and the NAIC support a long-term NFIP reauthorization, as well as the facilitation of increased private sector involvement in the sale of flood insurance, which can help ensure that consumers have access to multiple options. In 2016, the NAIC developed the "NAIC Principles for National Flood Insurance Program (NFIP) Reauthorization"[5] and has testified in Congress on the importance of ensuring a viable private flood insurance market as an alternative to the NFIP.[6]

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[1] *https://riskcenter.wharton.upenn.edu/wp-content/uploads/2019/02/Moving-the-Needle-on-Closing-the-Flood-Insurance-Gap.pdf.*
[2] *www.pciaa.net/docs/default-source/industry-issues/4_lessonslearned.pdf.*
[3] *https://www.naic.org/documents/government_relations_comment_letter_federal_banking_private_flood_insurance.pdf.*
[4] The key conditions in the final rule are: 1) a requirement that the policy provide sufficient protection for a designated loan, consistent with general safety and soundness principles; and 2) a requirement that the regulated lending institution document its conclusion regarding the sufficiency of protection in writing. The final rule also allows regulated lending institutions to exercise their discretion to accept certain plans providing coverage issued by "mutual aid societies."
[5] *https://www.naic.org/documents/government_relations_161019_nfip_guiding_principles.pdf.*
[6] *https://www.naic.org/documents/government_relations_160113_testimony_private_flood_insurance.pdf.*

Following from this NAIC action, the purpose of this document is to provide state insurance regulators with concrete actions that can be and/or have been taken to assist with the development of the burgeoning private insurance market for residential flood insurance.

OVERALL STATE OF THE FLOOD INSURANCE MARKET

According to the most recent data collected by the NAIC (Table 1), approximately $644 million of direct premium was written in the private flood insurance market in 2018 throughout the U.S. In 2018, the private flood insurance market represented 15% of the total flood insurance market ($4.2 billion). The private flood insurance market has been growing over the past few years, with the $644 million in direct premium written in 2018 being an increase of 9% from 2017 direct written premiums, and an increase of 71% since 2016. In 2018, California, Florida, Louisiana, New Jersey, New York, Pennsylvania, Puerto Rico and Texas each had $20 million or more of private flood insurance direct written premium (Table 1), with these eight states/jurisdictions representing nearly 60% of the total private flood insurance market.

It is important to note that the NAIC Annual Statement data used in Table 1 and Table 2 does not differentiate between residential private flood insurance premium and commercial private flood insurance premium. The NAIC is exploring data collection via a supplement and/or data call to collect data for residential private flood insurance and commercial private flood insurance separately.

Beyond this aggregate view of premium being written by state, for a relative sense of market penetration and growth of the private flood market, two other views of the NAIC data are presented: 1) private flood as a percentage of total flood written per state in 2018 (Table 1); and 2) private flood growth by state from 2016 to 2018 (Table 2).

Table 1: Private Flood as a Percentage of Total Flood Written per State in 2018

State	Direct Premium Written – Private	Direct Written Premium – NFIP	Total	Private Flood Percentage
AK	$ 726,128	$ 2,173,734	$ 2,899,862	25%
AL	$ 4,717,310	$ 37,369,849	$ 42,087,159	11%
AR	$ 2,918,840	$ 13,387,226	$ 16,306,066	18%
AS	$ 17	$ 38,356	$ 38,373	0%
AZ	$ 13,616,250	$ 20,785,412	$ 34,401,662	40%
CA	$ 83,598,726	$ 184,728,154	$ 268,326,880	31%
CO	$ 6,815,467	$ 17,996,733	$ 24,812,200	27%
CT	$ 8,554,006	$ 52,057,947	$ 60,611,953	14%
DC	$ 2,023,055	$ 1,481,959	$ 3,505,014	58%
DE	$ 1,870,439	$ 19,394,560	$ 21,264,999	9%
FL	$ 79,664,174	$ 974,338,089	$ 1,054,002,263	8%
GA	$ 13,822,654	$ 59,793,148	$ 73,615,802	19%
GU	$ 23,475	$ 348,208	$ 371,683	6%
HI	$ 3,511,428	$ 40,778,877	$ 44,290,305	8%
IA	$ 9,261,662	$ 12,894,876	$ 22,156,538	42%
ID	$ 1,685,637	$ 4,443,509	$ 6,129,146	28%
IL	$ 15,571,396	$ 41,782,653	$ 57,354,049	27%
IN	$ 9,754,263	$ 22,122,449	$ 31,876,712	31%
KS	$ 5,619,810	$ 8,096,167	$ 13,715,977	41%

Table 1: Private Flood as a Percentage of Total Flood Written Per State in 2018 (cont'd)				
State	Direct Premium Written – Private	Direct Written Premium – NFIP	Total	Private Flood Percentage
KY	$ 5,562,791	$ 19,859,236	$ 25,422,027	22%
LA	$ 20,518,942	$ 332,451,130	$ 352,970,072	6%
MA	$ 17,035,775	$ 77,215,928	$ 94,251,703	18%
MD	$ 6,161,138	$ 38,179,561	$ 44,340,699	14%
ME	$ 1,826,143	$ 8,778,305	$ 10,604,448	17%
MI	$ 7,287,062	$ 20,395,079	$ 27,682,141	26%
MN	$ 6,072,364	$ 7,828,757	$ 13,901,121	44%
MO	$ 10,054,439	$ 21,828,499	$ 31,882,938	32%
MP	$ 1,406	$ -	$ 1,406	100%
MS	$ 5,401,764	$ 43,786,173	$ 49,187,937	11%
MT	$ 1,107,818	$ 3,679,000	$ 4,786,818	23%
NC	$ 10,477,327	$ 109,932,602	$ 120,409,929	9%
ND	$ 1,808,961	$ 6,508,148	$ 8,317,109	22%
NE	$ 3,426,045	$ 8,737,796	$ 12,163,841	28%
NH	$ 1,579,406	$ 8,531,507	$ 10,110,913	16%
NJ	$ 33,570,528	$ 215,735,820	$ 249,306,348	13%
NM	$ 2,025,523	$ 10,462,171	$ 12,487,694	16%
NV	$ 4,598,626	$ 8,083,596	$ 12,682,222	36%
NY	$ 47,243,273	$ 205,299,097	$ 252,542,370	19%
OH	$ 15,400,298	$ 33,185,859	$ 48,586,157	32%
OK	$ 3,076,462	$ 11,092,205	$ 14,168,667	22%
OR	$ 6,248,012	$ 23,928,017	$ 30,176,029	21%
PA	$ 22,141,354	$ 65,301,183	$ 87,442,537	25%
PR	$ 21,658,142	$ 7,645,531	$ 29,303,673	74%
RI	$ 2,317,465	$ 18,409,898	$ 20,727,363	11%
SC	$ 13,703,417	$ 137,792,886	$ 151,496,303	9%
SD	$ 834,247	$ 3,115,261	$ 3,949,508	21%
TN	$ 12,179,549	$ 24,574,361	$ 36,753,910	33%
TX	$ 63,221,041	$ 435,173,125	$ 498,394,166	13%
UT	$ 2,712,200	$ 2,509,861	$ 5,222,061	52%
VA	$ 9,475,832	$ 78,057,383	$ 87,533,215	11%
VI	$ 37,329	$ 2,185,181	$ 2,222,510	2%
VT	$ 698,550	$ 4,937,502	$ 5,636,052	12%
WA	$ 12,061,004	$ 31,765,783	$ 43,826,787	28%
WI	$ 5,896,222	$ 11,790,299	$ 17,686,521	33%
WV	$ 1,804,872	$ 16,683,897	$ 18,488,769	10%

WY	$ 899,933	$ 1,580,170	$ 2,480,103	36%
Total	**$ 643,879,997**	**$ 3,571,032,713**	**$ 4,214,912,710**	**15%**

Table 2: Private Flood Growth by State from 2016 to 2018

State	Direct Premium Written – 2018	Direct Premium Written – 2017	Direct Premium Written – 2016	Percentage of Change Premium Written from 2017 to 2018	Percentage of Change Premium from 2016 to 2018
AK	$ 726,128	$ 957,063	$ 555,129	-24%	31%
AL	$ 4,717,310	$ 4,799,724	$ 3,005,135	-2%	57%
AR	$ 2,918,840	$ 2,826,120	$ 1,607,656	3%	82%
AS	$ 17	$ -	$ -	N/A	N/A
AZ	$ 13,616,250	$ 11,068,965	$ 6,260,448	23%	117%
CA	$ 83,598,726	$ 71,951,648	$ 48,786,070	16%	71%
CO	$ 6,815,467	$ 6,097,813	$ 4,735,996	12%	44%
CT	$ 8,554,006	$ 9,810,824	$ 6,787,613	-13%	26%
DC	$ 2,023,055	$ 2,838,882	$ 1,829,183	-29%	11%
DE	$ 1,870,439	$ 1,669,426	$ 740,005	12%	153%
FL	$ 79,664,174	$ 84,491,040	$ 47,796,186	-6%	67%
GA	$ 13,822,654	$ 12,154,732	$ 6,953,126	14%	99%
GU	$ 23,475	$ 61,491	$ 9,396	-62%	150%
HI	$ 3,511,428	$ 4,707,292	$ 3,149,891	-25%	11%
IA	$ 9,261,662	$ 7,973,218	$ 6,739,156	16%	37%
ID	$ 1,685,637	$ 1,246,073	$ 842,501	35%	100%
IL	$ 15,571,396	$ 14,022,683	$ 9,770,834	11%	59%
IN	$ 9,754,263	$ 9,359,454	$ 5,834,525	4%	67%
KS	$ 5,619,810	$ 5,187,276	$ 3,519,857	8%	60%
KY	$ 5,562,791	$ 5,184,777	$ 3,636,333	7%	53%
LA	$ 20,518,942	$ 17,883,168	$ 11,495,497	15%	78%
MA	$ 17,035,775	$ 15,255,682	$ 8,980,394	12%	90%
MD	$ 6,161,138	$ 4,881,020	$ 3,004,956	26%	105%
ME	$ 1,826,143	$ 1,393,303	$ 1,449,308	31%	26%
MI	$ 7,287,062	$ 5,784,426	$ 3,112,100	26%	134%
MN	$ 6,072,364	$ 6,034,414	$ 4,382,496	1%	39%
MO	$ 10,054,439	$ 8,579,964	$ 5,611,173	17%	79%
MP	$ 1,406	$ 673	$ -	109%	N/A
MS	$ 5,401,764	$ 4,954,089	$ 3,545,564	9%	52%
MT	$ 1,107,818	$ 965,222	$ 546,157	15%	103%
NC	$ 10,477,327	$ 9,385,350	$ 5,916,463	12%	77%

Table 2: Private Flood Growth by State from 2016 to 2018 (cont'd)					
State	**Direct Premium Written – 2018**	**Direct Premium Written – 2017**	**Direct Premium Written – 2016**	**Percentage of Change Premium Written from 2017 to 2018**	**Percentage of Change Premium from 2016 to 2018**
ND	$ 1,808,961	$ 1,518,138	$ 1,033,168	19%	75%
NE	$ 3,426,045	$ 2,733,969	$ 1,819,577	25%	88%
NH	$ 1,579,406	$ 1,773,337	$ 1,516,804	-11%	4%
NJ	$ 33,570,528	$ 28,862,467	$ 17,035,409	16%	97%
NM	$ 2,025,523	$ 1,735,136	$ 662,921	17%	206%
NV	$ 4,598,626	$ 4,574,608	$ 2,440,079	1%	88%
NY	$ 47,243,273	$ 47,674,483	$ 27,419,308	-1%	72%
OH	$ 15,400,298	$ 14,202,904	$ 5,628,305	8%	174%
OK	$ 3,076,462	$ 3,507,498	$ 1,746,619	-12%	76%
OR	$ 6,248,012	$ 4,730,473	$ 2,910,035	32%	115%
PA	$ 22,141,354	$ 18,832,760	$ 13,240,946	18%	67%
PR	$ 21,658,142	$ 19,554,982	$ 19,436,229	11%	11%
RI	$ 2,317,465	$ 2,623,963	$ 1,286,538	-12%	80%
SC	$ 13,703,417	$ 12,726,603	$ 10,633,358	8%	29%
SD	$ 834,247	$ 770,092	$ 572,506	8%	46%
TN	$ 12,179,549	$ 8,584,856	$ 5,939,417	42%	105%
TX	$ 63,221,041	$ 53,512,832	$ 31,771,120	18%	99%
UT	$ 2,712,200	$ 1,958,666	$ 1,050,341	38%	158%
VA	$ 9,475,832	$ 8,527,381	$ 4,727,129	11%	100%
VI	$ 37,329	$ 43,449	$ 122,459	-14%	-70%
VT	$ 698,550	$ 520,374	$ 297,124	34%	135%
WA	$ 12,061,004	$ 11,566,163	$ 9,609,189	4%	26%
WI	$ 5,896,222	$ 4,140,377	$ 2,300,499	42%	156%
WV	$ 1,804,872	$ 1,986,325	$ 1,614,061	-9%	12%
WY	$ 899,933	$ 959,541	$ 713,965	-6%	26%
Total	**$ 643,879,997**	**$ 589,147,189**	**$ 376,130,254**	**9%**	**71%**

Clearly, this data suggests that there are considerable opportunities for private flood insurance placement and market development. However, it is important to note that in 2018, the majority of growth occurred in the private commercial flood insurance market. The residential private flood insurance market showed a slight decline from 2017.[7]

As insurers' familiarity with flood catastrophe models grows, as underwriting experience develops and as state regulatory structures evolve, the number of private flood insurance policies in force could continue to grow, including among admitted carriers. Therefore, it is important to understand what the states have done (or not done) to enhance this growth.

[7] *https://www.insurancejournal.com/research/app/uploads/2019/06/FINAL-Private-Flood-Insurance-Report-2019.pdf.*

STATE ACTION

During the six years of uncertainty regarding the federal banking rules for private flood insurance, a number of states began undertaking efforts to encourage the growth of a private flood insurance market in their state. Florida's efforts to establish a private flood insurance market have been applauded as a potential model to be used in other states looking to expand their residential private flood insurance offerings. Florida has the largest flood insurance market in the country; approximately 35% of NFIP policies are written there.[8] Florida has enacted legislation to create a statutory framework, allowing private insurers to offer multiple types of flood coverage ranging from standard coverage, which mirrors the NFIP, to other enhanced coverages. This legislation includes: 1) streamlining the rate filing process for private flood insurers; 2) eliminating the diligent search requirement for flood policies issued by surplus lines carriers until July 2019; and 3) providing a process by which the Office of Insurance Regulation (OIR) will certify that a private insurer's policy equals or exceeds coverage provided by the NFIP. Florida's OIR issued an informational memorandum providing guidance on how private insurers will need to demonstrate the financial capacity to assume this risk, as well as options for developing private flood rates and policy forms.

In addition to Florida, we can draw upon the existing experiences from other states in developing a robust flood insurance market along the key aspects of insurance regulation.

The NAIC reached out to the states on the drafting group to provide information that was not readily available on the states' websites, as well as to gather information from other resources, including: 1) the Wharton School of the University of Pennsylvania study *The Emerging Private Residential Flood Insurance Market in the United States*; 2) Government Accountability Office (GAO) reports; and 3) a recently updated Congressional Research Service (CRS) report regarding private flood insurance and the NFIP. In the future, the NAIC might want to consider sending a more detailed questionnaire to the states to gather more information regarding the developing private flood insurance market.

State efforts to grow a viable private flood insurance market include:

Legislative and Regulatory Changes

- Supporting private flood insurance legislation.
- Approving private flood insurance products.
- Tailoring rate and form requirements for private flood insurance coverage.
- Allowing private flood insurers to submit rates on an informational basis.
- Removing diligent search requirements.

Consumer Information

- Conducting consumer outreach.
- Listing private flood insurance products on a department of insurance's (DOI) website.
- Collecting residential private flood insurance data.

Agent and Lender Actions

- Implementing specific continuing education (CE) requirements for producers.
- Increasing the weighting of flood insurance questions on producer licensing exams.
- Conducting agent education.

[8] *www.floods.org/ace-files/documentlibrary/committees/Insurance/Emerging_Flood_Insurance_Market_Report-Wharton-07-13-18.pdf.*

- Conducting lender education.

LEGISLATIVE AND REGULATORY CHANGES

Supporting Private Flood Insurance Legislation

In addition to Florida's legislation, West Virginia has passed legislation requiring insurers to file their private flood insurance plan of operation with the insurance commissioner and authorizing expedited processing of surplus lines policies for flood insurance.

Approving Private Flood Insurance Products

Personal lines private flood insurance products are being approved by a number of states. Currently, Alabama, California, Mississippi and Pennsylvania are among states approving new personal lines private flood insurance products for entry into the market.

In January 2018, the Insurance Services Office (ISO) developed a new private flood insurance form, for both personal and commercial flood insurance. The ISO forms are similar to a homeowner's policy form. However, the damage to the property must be caused by flooding. As of March 2018, ISO personal flood insurance forms have been filed in 43 jurisdictions, and commercial flood insurance forms have been filed in 45 jurisdictions. The states with independent rating bureaus are not reflected in these numbers.

TAILORING RATE AND FORM REQUIREMENTS FOR PRIVATE FLOOD INSURANCE COVERAGE

The states might want to consider permitting insurers to file private flood insurance products without a prior approval requirement. For example, Florida law permits private flood insurance rates to be implemented without prior approval at the time of filing. However, insurers are required to keep supporting actuarial data for two years. Furthermore, Florida law allows insurers to request the state to certify that a private policy provides flood coverage that equals or exceeds that offered by NFIP. (See Appendix I for information on Florida's process.)

Maryland, South Carolina and Pennsylvania have not relaxed the rate and form filing requirements. However, they are committed to an efficient and swift overview of private flood insurance filings, and they will work with insurers to make the filing and approval process as smooth as possible.

EXPORT LIST / WAIVING DILIGENT SEARCH REQUIREMENTS

Insurance generally must be sold in the admitted market. Only after a "diligent search" of the admitted market is performed and coverage is denied can insurance be placed in the surplus lines market. However, states make exceptions for those types of insurance that are known to not be available in the admitted market. These insurance products are listed on what is known as an "Export list." When a type of insurance is listed on an Export list, the applicant can go straight to the surplus lines market without the need for the diligent search, thereby obtaining coverage more easily and quickly. At least 14 states have placed flood insurance on their "Export list," including: Alaska, Arizona, Connecticut, Idaho, Louisiana, New Jersey, Oklahoma, Oregon, Pennsylvania, Rhode Island, Texas, Virginia, West Virginia and Wisconsin.

Allowing Private Flood Insurers to Submit Rates on an Informational Basis

Allowing insurers to submit rates on an informational basis in states with prior approval rate filing laws is another way to encourage the growth of the private flood insurance market. Two states that have taken this approach include Florida and New Jersey.[9] (See Appendix I for information on Florida's process.)

CONSUMER INFORMATION

Consumer Outreach

It is important to understand that everyone lives in a flood zone. Some people live in higher-risk flood zones than others, but we all live in a flood zone.

When people say they live or do not live in a flood zone, they typically mean what is known as a "special flood hazard area". A "special flood hazard area" is an area within FEMA's 100-year flood plain. This is where flood insurance is typically mandatory as a condition of obtaining a property loan. But there are flood zones outside of the 100-year flood plain as well. For example, there is also what FEMA classifies as moderate risk flood zones. These are the properties in the 500-year flood plain. By definition, and according to FEMA, these properties have between a 0.2% and a 1% chance of flooding in any given year. That might sound small, but over the course of a 30-year mortgage, these properties, according to FEMA, have between a 6% and 26% chance of being inundated by a flood. And flood insurance is not mandatory as a condition of obtaining a property loan in these moderate-risk flood zones.

Consumers need to understand that their property may still be at risk for flooding even if they do not live in a special flood hazard area and are not required to purchase it. They also need to understand that flood insurance can be relatively inexpensive, especially when the property is not in the highest-risk flood zones. There are options available to them, from both the NFIP and the private flood insurance market. And they can purchase lower limits of coverage; they do not need to insure the full replacement cost of their home if they do not wish to do so. Purchasing just $20,000 of coverage, for example, might go a long way in the event of a flood and may be cheaper to purchase than believed. Further, renters can buy policies that cover only their personal property and not the dwelling that they rent.

There are also many consumers under the misconception that flood damage will be covered by their homeowners insurance policy or rental insurance policy. Therefore, they are unaware of their actual flood risk, and they learn that they are uninsured for this catastrophic peril only after a flood event for which they have no coverage.

State DOIs, as well as the NAIC, are launching consumer outreach programs to help address this coverage gap.

Some states now require a flood disclosure with homeowners policies. For example, Texas recently passed a law requiring a conspicuous disclosure when homeowners policies do not include flood coverage.

The NAIC Communications Department has also launched a flood campaign this year to inform consumers of the importance of purchasing flood insurance, either private flood insurance or flood insurance provided by the NFIP. Additionally, the NAIC recently released a special section of its website

[9] *https://riskcenter.wharton.upenn.edu/wp-content/uploads/2018/07/Emerging-Flood-Insurance-Market-Report.pdf* and state DOIs.

dedicated to educating consumers about the risks of flooding and what kinds of coverage options are available to protect against those risks.

Finally, the NAIC's Transparency and Readability of Consumer Information (C) Working Group has created both a basic flood insurance document and several graphic materials containing flood facts, to be used by DOIs for consumer outreach via social media.

Listing Private Flood Insurance Writers on a DOI Website

While many DOIs include information regarding NFIP policies on their websites, some states, including Florida, Louisiana, New Jersey and Pennsylvania, provide a list of private flood insurance writers and their contact information on their websites.

It is worthwhile to note that surplus lines writers are generally not listed by the line of business they write. However, it has been suggested that there would be value for the states to provide information regarding which surplus lines writers are writing residential private flood insurance. Pennsylvania lists the surplus lines producers placing residential flood insurance on its website.

Collecting Residential Private Flood Insurance Data

Florida and Texas both collect comprehensive data regarding residential private flood insurance.[10] As described previously, the NAIC has been collecting private flood insurance data since the data year 2016. Before that, the private flood insurance line was not a separate entry in the annual statement. While residential and commercial private flood insurance are not separated in the property/casualty (P/C) annual statement blank, the NAIC, through its Property and Casualty Insurance (C) Committee, is considering enhancements to the annual statement that would require insurers to report the residential private flood insurance premiums and commercial private flood insurance premiums independently. The Surplus Lines (C) Task Force is considering similar changes to alien surplus lines private flood insurance data that is reported to the International Insurers Department (IID).

The Wholesale & Specialty Insurance Association (WSIA) is also providing the Reinsurance Association of America (RAA) with data regarding surplus lines insurance. The RAA is working on an open source database that provides information regarding private flood insurance.

These changes would allow state insurance regulators and FEMA to better measure the growth of the private residential flood insurance market.

AGENT AND LENDER ACTIONS

Continuing Education and Producer Licensing Requirements

FEMA requires all insurance producers licensed in property, casualty or personal lines of authority who sell flood insurance through the NFIP to complete a one-time course, as required by the federal Flood Insurance Reform Act of 2004. This is also the only educational requirement in many states.

At least one state has increased the weighting of the flood insurance questions on their producer licensing exam.

[10] *https://riskcenter.wharton.upenn.edu/wp-content/uploads/2018/07/Emerging-Flood-Insurance-Market-Report.pdf.*

Agent Education

Selling flood insurance requires an agent to understand the intricacies of NFIP and private flood insurance policies.[11]

When purchasing insurance, many times the insurance agent is the consumer's first point of contact. Therefore, it would be valuable if an agent could explain the risks of flooding, even if a consumer does not own or rent property in a high-risk flood zone. Recent flood events remind us that where it can rain, it can flood, and many floods occur outside of a high-risk flood zone. If agents help to educate the consumer, it will help eliminate the cost of inaction, as the occurrence of a flood event could be financially unbearable for homeowners or renters if they are not insured or are underinsured. It is critical for agents to make a special effort to educate homeowners regarding the need for flood insurance, even if a business or home is not located in a high-risk flood zone.

DOIs can provide agents with information that they have learned as a result of a flood event, and they can foster agent education by requiring CE requirements to improve an agent's knowledge of flood insurance.

Other states' adoption of such practices would likely improve agents' knowledge of flood insurance, therefore helping their clients to obtain more effective flood coverage, whether through the NFIP or the private market.

Lender Education

A large percentage of Americans have a mortgage on their home. Therefore, lender education is another opportunity for consumer flood insurance education. Recent catastrophic flooding events have illustrated that floods can happen anywhere. Therefore, it may be in the best interest of homeowners to purchase flood insurance even if they do not live in a high-risk flood zone.

While state insurance regulators do not have the authority to regulate lenders, lenders should still be educated regarding the importance of flood insurance. When navigating the loan process, lenders do not always discuss purchasing flood insurance unless the borrower's home is in a high-risk flood zone. A discussion about purchasing flood insurance even if the homeowner does not live in a high-risk flood zone should ideally be addressed with the borrower.

DOIs can raise awareness regarding flood insurance by bringing agents, consumers, lenders, FEMA, private flood insurance writers, etc. together in communities to discuss the importance of a homeowner purchasing flood insurance.

MARKET UNCERTAINTY AND THE DEVELOPMENT OF A PRIVATE FLOOD INSURANCE MARKET

The May 2019 CRS report, "Private Flood Insurance and the National Flood Insurance Program," identified some of the barriers to the development of a private flood insurance market. Some of the barriers identified in the report include: 1) regulatory uncertainty; and 2) continuous coverage.

Most directly relevant for the NAIC members is the notion of regulatory uncertainty, which is covered below. The remaining topics will be addressed in Appendix II.

[11] www.floods.org/ace-files/documentlibrary/committees */Insurance/Emerging_Flood_Insurance_Market_Report-Wharton-07-13-18.pdf.*

In 2016, the U.S. experienced several major flood catastrophes, causing billions of dollars in property losses.[12] Following these storms, it was found that somewhere between 50% and 80% of these losses were not insured, which implies that communities are unable to bounce back quickly following large catastrophic events.

Floods are expected to cost U.S. households $20 billion each year[13]. An Insurance Information Institute (I.I.I.) survey indicated that 15% of American homeowners had a flood insurance policy in 2018[14] and that there were approximately 5.18 million flood insurance policies held by the NFIP.[15] Milliman estimates the potential private residential flood insurance market to represent between $34 billion and $48 billion in direct written premium.[16] This data clearly indicates an opportunity for growth in the residential private flood insurance market in the U.S.

Recently, comments have surfaced regarding the possibility of the residential private flood insurance market cherry-picking their risks. It is important to remember the NFIP was meant to be a temporary solution that was put into place 50 years ago due to private insurers not insuring flood. While the NFIP is important, every state has some type of residual market that aids in insuring and providing insurance coverage for those who are unable to obtain insurance coverage available in the market. While not directly related to flood insurance, two good examples of successful residual markets are Florida Citizens and Louisiana Citizens. As the market has grown and shrunk in both Florida and Louisiana, both Florida Citizens and Louisiana Citizens needed to and provided a safe and reliable source of insurance for consumers. The NFIP can continue to evolve and do the same thing. Milliman believes Risk Rating 2.0 will help the NFIP and provide helpful information regarding the actual risk of a flood insurance policy; however, it was recently announced that the implementation of Risk Rating 2.0 will be delayed until Oct. 1, 2021 to allow for more analysis of its impact.

Milliman is of the opinion that a private market can coexist alongside the NFIP. Private flood insurance can be written in the admitted and non-admitted market. However, it needs to be determined if the guaranty funds will cover flood insurance in the admitted market, as flood may be excluded in many states.

Many private insurers have not serviced or written flood insurance policies. Additionally, private insurers do not have access to historical data; this poses a problem. It will be important to balance the need to protect consumers against the need to promote the private flood insurance market.

New entrants to the private flood insurance market are likely to purchase significant amounts of reinsurance. Flood insurance is inherently high-risk and volatile, so insurers may require higher amounts of profit and contingencies built into rates than for a typical homeowner's insurance product. States allowing these options might make it easier for an insurer to offer private flood insurance. For example, Wisconsin has no limitations or requirements for reinsurance cost and profit provision assumptions.

The issue of continuous coverage is problematic. In order for an NFIP policyholder to preserve any subsidies provided by the NFIP, a policyholder is required to have continuous flood insurance coverage. Currently, a policyholder loses subsidies or cross-subsidies when private flood insurance is purchased, if the policyholder chooses to return to the NFIP.

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[12] https://www.pewtrusts.org/en/research-and-analysis/articles/2017/02/01/flooding-disasters-cost-billions-in-2016
[13] Milliman
[14] https://www.iii.org/fact-statistic/facts-statistics-flood-insurance
[15] https://www.fema.gov/total-policies-force-calendar-year
[16] Milliman

Unless there is legislation in place allowing private flood insurance to be deemed as continuous coverage, homeowners may be averse to purchasing private flood insurance. Homeowners do not want to find themselves in a situation causing them to lose their subsidy should they elect to return to the NFIP for flood insurance coverage. While legislation has been introduced in the U.S. House of Representatives allowing private flood insurance to count towards continuous coverage, legislation has yet to be passed.

The availability of private flood insurance provides the added benefit of increasing consumer choice. As private insurers are entering the flood insurance market, some of the policies offered are providing broader coverage than that provided by the NFIP. Additionally, some policyholders are finding private flood insurance policies to be less expensive than those offered by the NFIP.[17]

SUMMARY

In the past few years, many states have experienced catastrophic flooding. Following the flood events, it has become even more apparent that a significant number of consumers are either uninsured or underinsured for the flood peril.

While the NFIP still writes a majority of the residential flood insurance policies, there are considerable opportunities for the development of the residential private flood insurance market.

This document provides details about how a few states have put procedures in place to enhance the private flood insurance market in a state. These procedures include: 1) supporting private flood insurance legislation and initiatives; 2) tailoring rate and form requirements for residential private flood insurance products; and 3) consumer, agent and lender education.

It is noteworthy to say that the states experiencing large flooding events have seen growth in the private flood insurance market regardless of any other actions. For example, following Hurricane Harvey, Texas saw growth in its residential private flood insurance market. Catastrophic events are a reminder to consumers of the devastation caused by flooding.

While there are several barriers for the residential private flood insurance market, the most significant barrier for private insurers may be uncertainty about the state regulatory environment.

To avoid unintended consequences policymakers interested in facilitating a private flood insurance market should familiarize themselves with the requirements for residential customers with a federally backed mortgage to purchase flood insurance coverage and with the existing private insurance markets that provide coverage for flood damage, including coverage provided under: (a) commercial policies, (b) residential policies providing coverage in excess of required flood insurance coverage limits, (c) residential policies for those not mandated to purchase flood insurance, and (d) comprehensive auto coverages. With such knowledge, legislative and regulatory changes can be tailored to accomplish the policy objectives without adversely impacting existing flood insurance markets.

The attached appendices discuss steps that Florida has taken in its approach to cultivate the private residential flood insurance market and discussion of other barriers to the entrance of residential private flood insurers.

[17] Congressional Research Service report, "Private Flood Insurance and the National Flood Insurance Program, May 7, 2019

Appendix I – Actions Florida Has Taken

FLORIDA'S FORM FILING PROCESS EXAMPLE

Florida reviews form filings, providing flood coverage differently based on the type of flood coverage being provided.

Subject to the Requirements of Florida's Flood Statute

The coverage provided under the policy must meet one of the definitions of type of flood coverage, as defined by S. 627.715, F.S. Of the five defined types, "standard," "preferred" and "customized" are defined to meet or exceed the coverage provided by the standard NFIP policy. "Flexible" flood insurance must cover losses from the peril of "flood" as defined by the statute, but it does not have to provide coverage comparable to the entire NFIP policy. "Supplemental" flood coverage is meant to supplement an NFIP or private flood policy. Policies that fall under these definitions may have certain provisions that differ from that which would otherwise be required if not written under the flood statute.

Items Not Subject to the Requirements of Florida's Flood Statute

The coverage does not have to meet or exceed the coverage provided by the standard NFIP policy. However, the provisions of the flood statute that allow changes to the form and rate requirements, as well as allowing for a certification provided by the Florida OIR, do not apply. This means that forms and rates would be subject to all the requirements of Florida law, and the coverage does not have to meet the definition of "flood" under the statute.

Florida's private flood insurance statute, S. 627.715 F.S., does not apply to the commercial lines market. Forms providing commercial flood coverage must comply with all applicable Florida laws.

REVIEW OF FLORIDA'S FORM FILING PROCESS

How the Florida OIR Reviews Form Filings Subject to its Flood Statute

The Florida OIR coordinates with FEMA about training to educate forms analysts about the details and nuances of a federal NFIP policy. Forms analysts:

- Review the policy or endorsement and compare it to the NFIP policy.
- Review the provisions of the underlying policy that are not superseded by changes made in the endorsement.
- Make sure that the flood coverage in total (including definitions, deductibles, limits, conditions, property not covered, exclusions, etc.) are as broad as that provided under the NFIP policy.
- Exclude provisions, specific to the NFIP, that would not make sense to be in a private company's policy.

State Law Conflict

There are certain provisions in the federal private flood definition that may conflict with a state's law.

For example, the statute of limitations under the standard NFIP policy is one year after the date of denial. In Florida, the statute of limitations for most claims is five years from the date of loss. The insurer could use the standard NFIP provision, or the insurer could use a provision such as one year after the date of denial of a claim or five years from the date of the loss, whichever is greater. The modified provision would be considered as providing better coverage.

Another potential area in which there could be conflict between the standard NFIP policy and state law is the requirement for notice of cancellation. The NFIP requires 45 days, which may be more or less than state provisions.

In Florida, to comply with the flood statute or other than Flexible or Supplement flood insurance, the insurer would have to give at least 45 days notice.

The general filing requirement for forms is found in S. 627.410, F.S., which requires the Florida OIR to approve forms before use.

For commercial flood coverage, the insurer has the option to file the forms as informational pursuant to S. 627.4102, F.S.

FLORIDA RATE PROCESS EXAMPLE

Florida allows insurers to offer personal residential flood insurance coverage that meets the requirements of the flood statute. Insurers may decide to either submit the rate filings subject to the normal filing requirements of review and approval or (until Oct. 1, 2025) submit the filing for informational purposes.

Personal residential flood insurance rates submitted for informational purposes are subject to examination by the Florida OIR for a period of two years from the effective date to determine if the rates are excessive, inadequate or unfairly discriminatory.

If the coverage does not meet the requirements of the "flood statute," the rate filing is subject to the normal filing requirements of review and approval. Commercial non-residential property rates (including that for flood coverage) are informational due to a separate provision of Florida laws, and they are an exception to these filing requirements.

FLORIDA FLOOD STATUTE – FLOOD POLICY TYPES

Florida's flood statute (S. 627.715, F.S.) sets up five types of flood coverage that may be written using the special deviations allowed for flood insurance.

- *Standard flood insurance (equivalent to coverage provided under the standard flood policy under the NFIP).*
- *Preferred flood insurance.*
- *Customized flood insurance.*
- *Flexible flood insurance.*
- *Supplemental flood insurance.*

Flexible and supplemental coverage are the only flood coverage types under the statute that do not require flood insurance coverage to meet or exceed what is provided under the standard NIFP policy. Flexible coverage must provide coverage for the peril of flood as defined by the statute (which mirrors that of the NFIP). However, there are ancillary coverages that are not required to be provided.

APPENDIX II – BARRIERS TO THE RESIDENTIAL PRIVATE FLOOD INSURANCE MARKET

Flood Coverage Being "At Least as Broad as" the NFIP

Biggert-Waters specifies that private flood insurance satisfies the mandatory purchase mortgage requirement when a private flood insurance policy affords coverage that is "at least as broad as" the coverage offered by an NFIP flood insurance policy.[18]

Since there was not a federal banking rule in place regarding private flood insurance following the passage of Biggert-Waters, it was challenging to implement the use of private flood insurance for the mandatory purchase mortgage requirement. Some lending institutions thought that they did not have the knowledge necessary to assess whether a flood insurance policy met the definition of private flood insurance set forth in Biggert-Waters.

The federal banking rule became effective July 1, 2019. The rule fulfills the condition in Biggert-Waters that regulated lending institutions accept private flood insurance policies satisfying the conditions specified in the Act. Furthermore, the federal banking rule allows lending institutions to accept an insurer's written assurances stated in a private flood insurance policy that the appropriate criteria is met. The rule also permits lending institutions to accept some flood insurance coverage plans provided by mutual aid societies.

Theoretically, the federal banking rule removes the acceptance of private flood insurance as a barrier to the private flood insurance market. However, educating the banking industry is clearly still needed as state insurance regulators are still hearing that lenders are telling borrowers that the only flood insurance policy that is acceptable is an NFIP flood policy. Thus, further education regarding the federal banking rule needs to be done. States may want to consider drafting a bulletin that can be used for these purposes.

Lenders may accept private flood insurance that meets the "discretionary acceptance" definition, which states that lending institutions may accept private flood insurance policies that do not meet the "mandatory acceptance" requirements, provided that certain conditions are met, such as that the policy provides sufficient protection of the loan, consistent with general safety and soundness principles.[19] This distinction may be important for insurers with a product designed with higher-deductible options and/or a shorter cancellation notice for nonpayment of premiums.

Finally, many property owners are not required to purchase flood insurance because their home is outside of a Special Flood Hazard Area (SFHA) or because they do not have a federally backed mortgage. As a result, any flood insurance policy covering such properties is not required to be as broad as the NFIP policy.

Continuous Coverage

If an NFIP policy holder lets an NFIP policy lapse, by either not paying premium or going to a private flood insurer, any subsidy the NFIP policy holder would have received is immediately eliminated.[20] Legislation currently being considered by Congress to reauthorize the NFIP includes the ability of policyholders to leave the NFIP in order to purchase a private flood insurance policy and then return to the NFIP without penalty.

[18] 42 U.S.C §4012a(b).
[19] Ibid
[20] As required by §100205(a)(1)(B) of Biggert-Waters (P.L. 112-141, 126 Stat. 917), only for NFIP policies that lapsed in coverage as a result of the deliberate choice of the policyholder.

Non-Compete Clause

FEMA dropped its non-compete clause in 2018. FEMA now allows Write Your Own (WYO) companies to sell NFIP policies. Therefore, this is no longer a barrier.

NFIP Subsidized Rates

One of the hurdles facing private flood insurance growth involves the NFIP's subsidized rates, as NFIP premiums do not always reflect the full risk of flooding. NFIP rates allow certain policyholders to have more affordable premiums. Additionally, NFIP rates do not incorporate profit, which is an important element for private flood insurers.[21] Private flood insurers need to charge rates that represent the full risk of the peril.[22]

If the NFIP were to reform its rate structure to collect full-risk rates, it might result in the encouragement of more private insurers to write policies in the private flood insurance market. Full-risk NFIP rates would fall closer to what a private insurer would charge. It is important to note that full-risk rates would likely lead to higher rates than those that currently exist.[23]

Presently, FEMA is in the process of redesigning its rating system. The new NFIP rating system will be known as Risk Rating 2.0. This new rating structure will add replacement cost value and consider the distance between a property and a source of water. Additionally, Risk Rating 2.0 takes into consideration things that are not reflected in the current rating structure, such as intense rainfall.[24] As stated previously it was recently announced that Risk Rating 2.0 will be delayed until Oct. 1, 2021 to allow for more analysis on its impact.

Ability to Assess Flood Risk Accurately

On June 11, 2019, the NFIP released data on flood losses and claims. Prior to the release of this data, insurers viewed the lack of access to NFIP data on flood losses and claims as a barrier for private companies offering flood insurance.

For private flood insurers to manage and diversify their risk exposure, consumer participation to manage and diversify their risk exposure is required. Many private insurers have expressed the view that broader participation in the flood insurance market would be necessary to address adverse selection and maintain a sufficiently large risk pool.[25]

An established goal of the NFIP is to increase the number of flood insurance policies in force. Even though there is a mandatory purchase requirement for homeowners to purchase flood insurance in certain flood zones, this does not always occur.

As more insurers begin to write private flood insurance, it is likely that consumers will be offered more choices. Private flood insurers may also offer coverages not available through the NFIP. These coverages might include coverage such as basement coverage, business interruption, additional living expenses, etc. Private insurers might also be able to offer higher coverage limits than those offered by the NFIP.

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[21] *www.floods.org/ace-files/documentlibrary/committees/Insurance/Emerging_Flood_Insurance_Market_Report-Wharton-07-13-18.pdf.*
[22] Ibid.
[23] Ibid.
[24] Ibid.
[25] GAO, Jan. 22, 2014. "Flood Insurance: Strategies for Increasing Private Sector Involvement," 14–127, accessed online at *https://www.gao.gov/products/GAO-14-127*.

Private flood insurance offered as an endorsement to a standard homeowners insurance policy could possibly eliminate instances where it is necessary to differentiate between flood and wind damage.[26]

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[26] CRS, May 7, 2019. "Private Flood Insurance and the National Flood Insurance Program," accessed online at *https://www.everycrsreport.com/files/20190507_ R45242_968aced5ccda33b36e57f26022e80552ffa6f32d.pdf.*

