NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

September 12, 2023

Chairman Sherrod Brown
Committee on Banking, Housing, and Urban Affairs
United States Senate
503 Hart Senate Office Building
Washington, DC 20510-3505

Ranking Member Tim Scott
Committee on Banking, Housing, and Urban Affairs
United States Senate
104 Hart Senate Office Building
Washington, DC 20510

Re: September 7, 2023, hearing titled: "Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers"

Dear Chairman Brown and Ranking Member Scott:

On behalf of the National Association of Insurance Commissioners (NAIC)[1], we appreciate the opportunity to submit this letter for the September 7, 2023, hearing titled: "Perspectives on Challenges in the Property Insurance Market and the Impact on Consumers." As the primary regulators of this sector, state insurance regulators are on the frontlines of natural catastrophe preparedness and response, protecting policyholders and maintaining well-functioning property insurance markets. We have long been committed to monitoring and addressing challenges in the property insurance market and their impacts on consumers.

For more than 150 years, from the first fire insurance policies influencing building codes, to today's record-breaking hurricane and wildfire seasons driving population shifts, state insurance regulators have developed extensive experience and insight into the macroeconomic forces shaping property insurance markets and have strived to develop tools and rules to balance industry solvency with fair treatment for policyholders.

Certainly, there are many factors and forces that impact property insurance market availability and affordability, from reinsurance costs to inflationary pressures, to labor and material supply, to litigation and broader macroeconomic conditions. However, the context for this hearing is the impact of recent natural disaster losses in creating property insurance availability and affordability challenges for a number of regions across the United States. These dynamics can vary within a relatively small geographic area, so while a state's property insurance market may be generally healthy overall, there can be localized protection gaps that challenge certain communities or that impact some insurers more than others. While this is not the first time state regulators have seen such cyclical growth and contraction in property insurance markets in response to weather

[1] As part of our state-based system of insurance regulation in the United States, the NAIC provides expertise, data, and analysis for insurance commissioners to effectively regulate the industry and protect consumers. The U.S. standard-setting organization is governed by the chief insurance regulators from the 50 states, the District of Columbia and five U.S. territories. Through the NAIC, state insurance regulators establish standards and best practices, conduct peer reviews, and coordinate regulatory oversight. NAIC staff supports these efforts and represents the collective views of state regulators domestically and internationally. For more information, visit www.naic.org.

frequency and severity, state insurance regulators have pursued a number of initiatives more recently to promote market stability and more access to insurance.

State insurance regulators, through the NAIC, have had a climate-risk working group for more than a decade, which in 2020 evolved into our Climate and Resiliency Task Force. The Task Force serves as the coordinating NAIC body for discussion and engagement on climate-related risk and resiliency issues. This Task Force builds on existing efforts to address the economic consequences of natural disasters, including efforts to mitigate their toll. While the role of the climate in influencing the frequency and severity of natural disasters has received more specific attention over the last decade, our work is built on decades of expertise and experience in managing the economic fallout of these disasters.[2]

Climate risk and the impact of extreme weather will remain an evolving risk, forcing us to adapt – something state regulation has and will continue to do – but we have laid the proper foundation to address it throughout our state-based regulatory system focusing on: (1) climate financial risk analysis; (2) the availability and affordability of insurance; and (3) stakeholder risk awareness and engagement. We also continue to advocate for resiliency and mitigation efforts that can reduce the risk of property loss, keeping people in their homes and businesses open.

Building on that foundation, the Climate Risk and Resiliency Task Force has taken several important steps that we would draw your attention to.[3]

First, a bipartisan and growing group of state insurance regulators adopted a new standard for insurance companies to report their climate-related risks, in alignment with the international Task Force on Climate-Related Financial Disclosures (TCFD). The TCFD standard is the international benchmark for climate risk disclosure and will help insurance regulators and the public to better understand the climate-related risks to the U.S. insurance market, which is the largest in the world. As of 2022, 15 states and territories utilize the survey, which represents nearly 80% of direct written premium nationwide and this year we expect 26 states to participate in the survey.

Second, state insurance regulators have updated the NAIC's Risk Based Capital (RBC) formula to include specific charges for hurricane, earthquake, and most recently wildfire risks. State insurance regulators use the RBC formula to monitor the capital adequacy of insurers to ensure their ability to pay claims following catastrophic events. The NAIC is currently considering adding severe convective storms as a modeled loss for insurers to report as a separate peril. We are also considering updates to the NAIC's financial examination materials and guidance manuals to reflect climate related risk within financial solvency tools as well as exploring how insurers are using scenario analysis to assess climate related risk internally.

[2] *See* NAIC November 11, 2021, Comment Letter https://content.naic.org/sites/default/files/testimony-letter-response-fio-rfi-climate-financial-risk-211111.pdf

[3] *See* Executive Committee Task Force on Climate and Resiliency National Association of Insurance Commissioners June 2023 Progress Report, https://content.naic.org/sites/default/files/draft-annual-progress-report-summary-2022.pdf

Third, state regulators and the NAIC, in coordination with FEMA, continue to build consumer awareness and support risk reduction measures to create more resilient and sustainable communities. The NAIC has also partnered with the Institute for Business and Home Safety (IBHS), which publishes experimental research, identifying and describing home hardening actions that reduce losses. Building on the IBHS' work, several states, including Alabama, Florida, Louisiana, North Carolina, South Carolina, Oregon, and California, have successfully implemented state-level mitigation programs to provide financial assistance to homeowners for reducing risks to their home or business. To help facilitate access and establishment of such mitigation programs, the NAIC has established a dashboard of risk mitigation programs.[4]

Fourth, last year the NAIC established a Catastrophe Model Center of Excellence within the NAIC's Center for Insurance Policy and Research to provide resources for state insurance regulators, including access to catastrophe model documentation, technical education and training, and applied research to proactively address regulatory climate risk and resilience priorities. The Center of Excellence works with catastrophe modeling providers to understand how climate change is or is not incorporated into their models and provides this information to state insurance regulators. By doing so, it enables state insurance regulators to better comprehend the use of these models in projecting risks and losses and identifying factors that could either increase or reduce risks.

Fifth, at the 2023 NAIC Summer National Meeting, state regulators announced a plan to issue a data call aimed at helping state insurance regulators collect data from insurers to better understand property markets and coverages as well as protection gaps. This data call, and subsequent analysis, is expected to focus on challenges around the availability and affordability of property insurance and state regulators have the authority to then act on insights gained from this data and analysis.[5]

Overall, our state-based insurance regulatory system has developed an extensive set of tools to assess and analyze insurer's solvency and liquidity and protect insurance consumers, and it is accustomed to adapting to an evolving risk landscape both today and in the future. However, while our regulatory system is well equipped to oversee the sector, and efforts to mitigate property insurance risk are impactful, there are no easy answers or silver bullets to address rising costs to protect what is, for many, our largest investment – our homes. The cost and availability of property insurance reflects the inherent risks facing those investments and is a clear indication that the true cost of homeownership is not just the cost to obtain a home, but the cost to protect it as well.

Certainly, there are a number of ways Congress can play an important role in helping improve the resilience of our housing stock and driving down the cost of insurance, but we would direct your attention to two in particular. First, recent hurricanes have illustrated the critical importance of flood insurance as many of the losses are caused by water, not wind.

As we enter what is anticipated to be another historically active hurricane season, and off the back of Florida suffering yet another large storm, the NAIC urges action on a long-term reauthorization of the NFIP before it expires on September 30, 2023. A long-term extension will help provide

[4] https://content.naic.org/sites/default/files/inline-files/State%20Mitigation%20Programs.pdf
[5] https://content.naic.org/article/naic-issue-data-call-help-regulators-better-understand-property-markets

certainty for policyholders in their efforts to prepare for flood disaster. A continuation of temporary extensions will only impair consumers' ability to plan, particularly when considering that most flood insurance policies do not take effect until 30 days after purchase.

We would also encourage Congress to utilize NFIP reauthorization as an opportunity to facilitate greater growth in the private flood insurance market to help provide consumers with additional choices for flood insurance products. Over time, this additional competition and shift of risk from a federal program to the private market could help lessen the exposure of U.S. taxpayers to the types of catastrophic flood losses that now reside as unpaid debt on the NFIP's books. It is critical to ensure that private flood insurance meets the continuous coverage requirement, so policyholders have a choice to return to the NFIP without penalty, including not losing any subsidy they previously had with the NFIP.

It is also imperative that reauthorization legislation include measures to encourage investment in prevention and preparedness to help minimize the impact of flood damage and economic loss. It is estimated that for every dollar we invest in mitigating future natural hazards like flooding we save six dollars.[6] We support the inclusion of mitigation discounts, such as premium discounts or insurance rate reductions to persons who build, rebuild, or retrofit their properties to better resist flood events, and allowing individuals to set aside funds in a tax-preferred savings account for disaster mitigation and recovery expenses.

Significant investment in preparation and mitigation could result in substantial savings in federal disaster relief. As discussed above, states are leading resiliency initiatives throughout the country and establishing mitigation grant programs to support homeowners' efforts to retrofit their homes. Encouraging mitigation not only reduces risks to homeowners, but to the insurance companies who provide them coverage.

Secondly, while promoting mitigation planning is a shared state and federal goal, there is inconsistent tax treatment of state and federal disaster mitigation grants. Congress has excluded grants provided through the Federal Emergency Management Agency from federal income tax, but state grants, including those offered by state established residual market mechanisms, for the same purpose are, in many cases, subject to federal income tax even if they are exempt from state income tax. This reduces both the impact of the grant and the incentive to pursue them. The bicameral bipartisan Disaster Mitigation and Tax Parity Act of 2023 (S. 1953 / H.R. 4070) would fix the inconsistency and provide parity for residential mitigation grants provided by state public entities. As we continue to experience the devastating effects of natural disasters, it is more important than ever to encourage residents and homeowners to utilize pre-disaster mitigation programs.

In conclusion, as state officials, we are perhaps closer to the consumers and businesses impacted by natural catastrophes than any other primary financial regulator. We are on the front lines assisting consumers with policy questions and talking to businesses about their concerns. We are committed to do all that we can to support our communities and remain committed to continuing

[6] National Institute of Building Sciences, Natural Hazard Mitigation Saves: 2019 Report (December 2019), https://www.nibs.org/files/pdfs/NIBS_MMC_MitigationSaves_2019.pdf)

to work with our federal, state, and local partners to help our country address the devastating personal and economic impacts of natural disasters. Thank you for considering the state insurance regulatory perspective. We look forward to continued engagement with you as we work together to respond to ongoing insurance market challenges.

Sincerely,

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