CLIMATE AND RESILIENCY (EX) TASK FORCE

Draft: 12/12/23

Climate and Resiliency (EX) Task Force
Orlando, Florida
December 3, 2023

The Climate and Resiliency (EX) Task Force met in Orlando, FL, Dec. 3, 2023. The following Task Force members participated: Lori K. Wing-Heier, Co-Chair (AK); Ricardo Lara, Co-Chair (CA); James J. Donelon, Co-Vice Chair (LA); Mike Kreidler, Co-Vice Chair (WA); Mark Fowler (AL); Alan McClain (AR); Barbara D. Richardson (AZ); Michael Conway (CO); Andrew N. Mais (CT); Karina M. Woods (DC); Trinidad Navarro (DE); Michael Yaworsky represented by Virginia Christy (FL); Gordon I. Ito (HI); Doug Ommen (IA); Dana Popish Severinghaus represented by Bruce Sartain and K.C. Stralka (IL); Amy L. Beard represented by Patrick O'Connor (IN); Sharon P. Clark (KY); Gary D. Anderson represented by Jackie Horigan (MA); Kathleen A. Birrane (MD); Timothy N. Schott (ME); Anita G. Fox (MI); Grace Arnold (MN); Chlora Lindley-Myers (MO); Mike Chaney represented by Andy Case (MS); Mike Causey represented by Robert Croom (NC); Jon Godfread (ND); D.J. Bettencourt represented by Christian Citarella (NH); Justin Zimmerman (NJ); Alice Kane (NM); Scott Kipper (NV); Adrienne A. Harris represented by Bob Kasinow (NY); Judith L. French represented by Tom Botsko (OH); Andrew R. Stolfi (OR); Michael Humphreys (PA); Elizabeth Kelleher Dwyer (RI); Michael Wise (SC); Scott A. White (VA); Kevin Gaffney (VT); Nathan Houdek represented by Sarah Smith (WI); and Jeff Rude (WY).

1. <u>Adopted its Oct. 12 Meeting Minutes</u>

Director Wing-Heier said the Task Force met Oct. 12 and took the following action: 1) received an update on the work of Canadian insurance regulators after the release of their position paper on flood risks and insurance solutions in Canada; and 2) received a report on data trends in the private flood insurance market based on NAIC annual statement filings.

The Task Force also met Nov. 17 in regulator-to-regulator session, pursuant to paragraph 8 (consideration of strategic planning issues) of the NAIC Policy Statement on Open Meetings, to review the NAIC National Climate Resilience Strategy for Insurance (Climate Resilience Strategy).

Commissioner Kreidler made a motion, seconded by Commissioner Fowler, to adopt the Task Force's Oct. 12 minutes (Attachment One). The motion passed unanimously.

2. <u>Heard a Presentation from CarbFix on Carbon Capture Technology</u>

Commissioner Kreidler said a variety of strategies to tackle climate change are needed. He said one strategy is carbon capture and storage, which involves capturing carbon before it goes into the atmosphere and storing it underground. CarbFix is an Iceland company doing this groundbreaking work and looking to expand into the U.S., Canada, India, and elsewhere. CarbFix uses an innovative technology to capture carbon and injects the carbon half a mile deep underground in basalt, where it turns into stone within two years. He said CarbFix will open an office in Washington connected to a major grant to do a demonstration project.

Edda Bjork Ragnarsdottir (CarbFix) gave a presentation about how CarbFix captures carbon and turns it into stone, similar to what occurs in nature today but at a faster pace. She said the first priority is to reduce emissions, but not all industries will be able to go net zero. She said there is not a lot of time to act, but the needed technologies exist. She said to meet the climate goals that have been set with the parties' agreement, 115 billion tons of carbon must be captured and stored by the end of 2060. Ragnarsdottir said this is where CarbFix comes into play.

Ragnarsdottir said the process is relatively simple, only needing three ingredients: 1) water; 2) basaltic rock (which is the most common rock on earth); and 3) carbon. Using the water as a means of transport, the carbon is injected into the ground about 300 to 500 meters, which would be below any groundwater. The carbon fills up the pores of the basaltic rock, so there is no increase in volume. She said storing carbon in the ground in gaseous form could allow the gas to escape. The new technology mineralizes the carbon so it cannot leak out to the atmosphere and is more cost-effective than other solutions. She said more than 100 scientific studies are available on CarbFix's website.

She said the most cost-effective method is on-site capture and mineral storage, where the emission is captured straight from the chimney and injected into the ground at the same location; direct capture using direct capture companies who gather carbon from the atmosphere; and transport (such as trains) using a transport mineralization storage. CarbFix is also doing research to potentially use seawater and other rock formations for injection.

Ragnarsdottir said the U.S. has enough basaltic rock that 7,500 billion tons could be stored there alone, which is much more than the 115 billion tons that need to be stored by the end of 2060. She said the younger the basaltic rock, the more porous, and the more carbon that can stored.

Ragnarsdottir responded to Commissioner Ommen that she will ask her scientists whether oxygen is also "locked down" in the process.

Commissioner Godfrey said North Dakota has funded a similar carbon capture storage project called Project Under and will begin construction next year. He said North Dakota has the largest fully permitted storage project in the U.S., and Wyoming is another state with primacy on regulating the space. He said the broader regulatory authority is challenged with seeking permits from the Environmental Protection Agency (EPA).

3. <u>Heard a Presentation from Aon on Parametric Insurance</u>

The Task Force heard a presentation from Katie Sabo (Aon) on Aon's parametric solutions for public entities. Sabo said parametric products are being more widely used and cover such situations as produce that is extremely weather sensitive, renewable energy where output is reliant on weather conditions, and flight delays over a certain amount of time.

Sabo said that some estimates are that only 30% of losses from natural disasters have been covered by insurance over the last 10 years, meaning 70% of losses are absorbed directly or indirectly by some level of government. She said parametric products are extremely useful when there are wide-ranging non-property losses, which is why parametric products are now being used in public entities' resiliency plans to cover net losses not covered by the federal government. She encouraged the use of parametric solutions to fill gaps within traditional insurance policies and to help provide coverage for difficult-to-insure or uninsurable risks.

With a product in place in Puerto Rico covering natural disasters, other states are also exploring the use of parametric insurance for exposure, such as earthquake cover. Sabo said parametric products can be structured in an infinite number of ways, from extremely complex to simple. A state would need to describe its need, perhaps to protect its net budgetary losses following a catastrophic loss. She said the state can define a threshold, such as the epicenter of an earthquake being in a specific area and the earthquake reaching a specific magnitude. If the earthquake reaches the predefined threshold, the cover would pay based on the payout table. The parametric insurance payout table would then be adjusted based on the budget available. For example, the payout might increase by intensity or might be limited based on the capacity to buy. Perils being insured range from hurricanes, hail, and tornadoes to more emerging areas such as temperature (heat or freeze).

Sabo responded to a question from Commissioner Gaffney, saying flood is possible to insure, given they are able to get information from satellite providers and more detailed data. She said parametric insurance is very tailored to a specific customized solution based on location.

4. Adopted the NAIC Climate Resilience Strategy

Director Wing-Heier said the Task Force met in regulator-to-regulator session Nov. 17 to preview the Climate Resilience Strategy that Task Force leadership developed. She said the strategy is a forward-looking plan that represents how state insurance regulators are working together to address the growing challenges to resilience in state markets. She said climate resilience is an issue state insurance regulators have worked on for years, and that foundation is what enables this first-ever NAIC strategy.

Director Wing-Heier said the timing is critical for multiple reasons: 1) the NAIC is close to releasing a national data call on insurance availability and affordability, which will be able to inform the implementation of this Climate Resilience Strategy; 2) the Task Force has several strong deliverables on climate resilience and combining those various deliverables into a unified state-regulator strategy makes them more valuable to members (for example, at a regulator-to-regulator meeting in July, the Task Force saw a preview of the NAIC Protection Gap Dashboard, and the Task Force can move quickly to make that dashboard more useful to members and the organization); 3) The NAIC recently signed a memorandum of understanding with the Insurance Institute for Business and Home Safety (IBHS), providing a timely partnership on risk mitigation research that can strengthen advocacy for federal funding. She said the proposed Climate Resilience Strategy would take the Task Force's existing work and put that work in a clear and well-coordinated framework that the NAIC can implement.

This Climate Resilience Strategy document: 1) highlights accomplishments and diverse state approaches; 2) creates tools to assist regulators, consumers, and industry; 3) focuses on state authority and jurisdiction; 4) defends and strengthens the state-based system; and 5) provides clear goals and objectives.

Director Wing-Heier explained the five major elements of the strategy. She said the first resiliency action is to identify and coordinate how to measure protection gaps and then set priorities for reducing those gaps. The aim is to help the Task Force better understand insurance availability and reliability in state markets and empower Commissioners with information to communicate with local governments, consumers, businesses, and the agencies in our jurisdictions that manage the risk of wildfires, floods, and extreme heat. She said it is a powerful message to demonstrate where risk mitigation can improve insurability.

The second resiliency action is to create a new blueprint for expanding flood insurance options. State insurance regulators cannot only rely on the National Flood Insurance Program (NFIP) to close protection gaps for flooding. Regulators have talked for years about the need for more private flood insurance, and this action will be an opportunity to take a hard look at new products and bring together examples of what individual states are doing to encourage flood insurance uptake.

The third resiliency action is to bring together the data from the upcoming property and casualty (P/C) data call with additional resources to understand how insurance companies are reacting to risk, whether that is retreating from areas, increasing deductibles, or decreasing coverage limits. Director Wing-Heier said there is a strong synergy between the NAIC Center of Excellence (COE) on Catastrophe Modeling and the nationwide data that state insurance regulators will be getting through the NAIC data call. That synergy will give state insurance regulators an opportunity to make more thoughtful conclusions from the data.

The fourth resiliency action is to create and coordinate new resilience tools to assist all state insurance regulators in developing or refining state-level incentives for risk mitigation. She said this could take the form of grant programs or insurance pricing incentives. The partnership with researchers at IBHS is giving state insurance regulators new insights into cost-effective pre-disaster mitigation and home hardening. Getting to more availability and affordability means bringing down the risks in state insurance regulators' jurisdictions. Director Wing-Heier stated that state insurance regulators are well-positioned to push for more mitigation funding and clear mitigation incentives.

The fifth resiliency action is to bring in the work that Commissioner Birrane has been leading in the Solvency Workstream. The workstream is finalizing recommendations for scenario analysis tools, which are a critical part of resilient insurance markets. As you know, one of our primary roles is to be strong financial regulators, reducing the likelihood of insolvencies. Scenario analysis will make state insurance regulators more informed and position them to understand how climate risks are impacting insurer solvency.

Director Wing-Heier said, in summary, that this forward-looking strategy will empower NAIC members to communicate and harmonize the important climate-related work the Task Force has been doing.

O'Connor said he has heard objections based on the lack of transparency. Director Wing-Heier said the document is an internal strategy for members; there is no requirement to seek public comment; and the document can be changed at any time because it is a living document. She said the document does not ask insurers for anything more than what they are already doing and is seen as a compilation of what the NAIC is doing on the subject through many different committee groups. Commissioner Stolfi said the strategy does not mandate committee groups to do anything, and there are no charges produced in the document. Numerous commissioners complimented the quality of the product and discussed whether an official exposure for public comment was needed.

Interested parties requested an opportunity to comment for many reasons, including that: 1) it is a public document; 2) there could be indirect, unintentional consequences; 3) some of the wording might need tweaking to better align with charges; 4) there is insufficient focus on the role of state and local government; 5) the document is not completely aligned with the International Association of Insurance Supervisors (IAIS) document on the topic; 6) consumers have an interest; 7) the effort to address the low penetration of flood insurance would involve major changes in the strategy; and 8) there is no strategy to address the failings of private reinsurance markets.

Upon interested party requests, Director Wing-Heier asked interested parties to submit any comments to her soon and before the document is considered for adoption by the Executive (EX) Committee, although she did not want that to delay adoption by the Task Force. Commissioner Lara asked for the strategy to be adopted to meet the timeline and said the plan is to continue open discussions and provide opportunities for comments as the document is updated and before it is considered for adoption by the Plenary. Commissioner Ommen said a direction could be to adopt the document now and then make further edits at Executive (EX) Committee meetings. Director Wing-Heier said she would expect to make changes throughout the year.

Commissioner Rude made a motion, seconded by Commissioner Kreidler, to adopt the NAIC Climate Resilience Strategy (Attachment Two). With one no-vote from Indiana and three abstentions from Arkansas, Florida, and Iowa, the motion passed.

5. <u>Received a Status Report on the Solvency Workstream</u>

With limited time for the remaining agenda items, Commissioner Birrane said it should be clear the plan is for the Task Force to make a referral to the Catastrophe Risk (E) Subgroup of the Property and Casualty Risk-Based Capital (E) Working Group, and she would provide a written summary. The written report on the Solvency Workstream is as follows: The Solvency Workstream of the Climate and Resiliency (EX) Task Force was tasked with considering the development of a climate scenario analysis. In 2022, the workstream held three public panels to learn more about the use of climate scenario analyses and different perspectives from various parties. Most noteworthy was the panel involving four insurance supervisors from other jurisdictions who described their approaches on this topic.

In 2023, the Solvency Workstream held three regulator-to-regulator educational meetings during which Workstream members learned more from NAIC staff and other parties about climate scenario analysis and from other regulators' approaches to the topic. One significant finding was that commercial catastrophe modelers have already developed "Climate Conditioned Catalog" versions of their models that reflect adjusted frequency and severity for certain time horizons (e.g., 2040 or 2050). While such conditioned catalogs are generally only available to companies for hurricane, wildfire, and flood, the first two perils are already included in the NAIC P/C RBC reporting framework. To that end, workstream members believe the NAIC should consider requiring insurers to disclose such information in the confidential RBC filings in the future to allow state insurance regulators to understand the quantitative impact of climate change. To accomplish this, the Solvency Workstream is not suggesting any change to the capital required on RBC but would choose to capture this information in the RBC process. Related to this, Solvency Workstream members have asked NAIC staff to prepare an RBC blanks proposal to be submitted to the Catastrophe Risk (E) Subgroup to consider for public exposure before Jan. 31. The Solvency Workstream will expose a draft memorandum to the Catastrophe Risk (E) Subgroup for comment. In addition to the RBC proposal, a small number of states will be asking some of their domestic companies to submit similar climate scenario analysis information to them in the next few months as a pilot.

Having no further business, the Climate and Resiliency (EX) Task Force adjourned.

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Climate and Resiliency (EX) Task Force
Virtual Meeting
October 12, 2023

The Climate and Resiliency (EX) Task Force met Oct. 12, 2023. The following Task Force members participated: Lori K. Wing-Heier, Co-Chair, represented by Chad Bennett (AK); Ricardo Lara, Co-Chair, represented by Mike Peterson (CA), James J. Donelon, Co-Vice Chair, represented by Thomas Travis (LA); Mike Kreidler, Co-Vice Chair, represented by Jay Bruns (WA); Mark Fowler represented by Brian Powell (AL); Alan McClain (AR); Barbara D. Richardson represented by Jon Savary (AZ); Michael Conway represented by Keilani Fleming (CO); Andrew N. Mais represented by Wanchin Chou (CT); Trinidad Navarro represented by Beverly Powell (DE); Michael Yaworsky represented by Anoush Brangaccio (FL); Doug Ommen represented by Travis Grassel (IA); Dana Popish Severinghaus represented by C.J. Metcalf (IL); Amy L. Beard represented by Linda Grant (IN); Sharon P. Clark represented by Shawn Boggs (KY); Gary D. Anderson represented by Rachel Davison (MA); Kathleen A. Birrane represented by Alexander Borkowski (MD); Timothy N. Schott (ME); Anita G. Fox represented by Chad Arnold (MI); Chlora Lindley-Myers represented by Cynthia Amann (MO); Troy Downing represented by Sam Loveridge (MT); Jon Godfread represented by Holly Brockman (ND); Eric Dunning and Connie Van Slyke (NE); D.J. Bettencourt represented by Christian Citarella (NH); Justin Zimmerman represented by Jesse Kolodin (NJ); Adrienne A. Harris represented by John Finston (NY); Judith L. French represented by Matt Walsh (OH); Andrew R. Stolfi represented by Brian Fjeldheim (OR); Michael Humphreys represented by David Buono (PA); Elizabeth Kelleher Dwyer (RI); Tregenza A. Roach represented by Cheryl Charleswell (VI); Kevin Gaffney represented by Rosemary Raszka (VT); Nathan Houdek (WI); and Jeff Rude represented by Shamika McDonald (WY). Also participating was: Marianne Baker (TX).

1. Adopted its Summer National Meeting Minutes

Travis made a motion, seconded by Commissioner McClain, to adopt the Task Force's Aug. 15 minutes (*see NAIC Proceedings – Summer 2023, Climate and Resiliency (EX) Task Force*). The motion passed unanimously.

2. Heard a Presentation from the CCIR on Canadian Flood Risk

Peterson said during the Task Force's meeting at the 2023 Spring National Meeting, the Task Force heard from the Canadian Council of Insurance Regulators (CCIR) and Public Safety Canada (PSC) on Canadian flood risks. He said since that meeting, the CCIR has released a new position paper on their study of flood insurance in Canada.

Lucas Neufeld (CCIR) said Jessica Strauss (PSC) is leading the work at the national level on designing a flood insurance program. Strauss said in the spring of 2023, the Canadian government announced plans to set up a national flood insurance regime. She said PSC is currently planning out what an affordability subsidy might look like within a national flood program. She said PSC has been working with provincial jurisdictions to look at some of the differences across Canada and how the needs of local areas fit into a national program.

Neufeld said the CCIR position paper states that the insurance industry needs to do more to ensure consumers understand their property-specific risk and insurance options. He said insurers and intermediaries need to work together to develop a coordinated and consistent approach to action on each of the recommendations in the paper. He said the CCIR and its working groups studying flood risks have met with insurance industry representatives to discuss the recommendations. He said they have begun to scope out implementing actions

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based on the recommendations. He said that once best practices have been implemented, they will continue to monitor the outcomes of the actions.

Neufeld said workstreams are being developed based on each of the four recommendations in the paper: 1) identification and communication of risk; 2) tailoring the product and communicating coverage options to the consumer; 3) providing a summary of natural catastrophe-related coverage to the consumer; and 4) training for intermediaries, including to ensure they understand the insurers' product offerings and relevant protections.

Rob O'Brien (CCIR) said some of the issues CCIR is trying to address include the relationship between insurers and intermediaries and their shared responsibilities; communicating complex issues to consumers; facilitating innovation and competition while recognizing the need for common language; and insurance availability and accessibility.

Chou asked if insurers in Canada are using modeling to evaluate flood risks and what their process is to determine if the model is working correctly. O'Brien said a federal initiative is underway to improve the quality of flood mapping, as that has been a consistent challenge expressed by insurers and modelers. He said that currently, flood insurance is readily available in low-risk areas and not at all available in high-risk areas. He said the current challenge is understanding the risks of those in the middle areas, and while there are initiatives to update and better understand flood mapping, there is still work to be done. Strauss said there is little quantitative information on the availability of flood insurance and if the coverage is adequate. She said it is also a concern of what the federal government can do for those in the highest-risk areas where coverage is unavailable.

Ethan Sonnichsen (NAIC) asked how the Canadian government is thinking about rating sufficiency, making sure that rates are adequate for coverage but also affordable for those who need the coverage, and how they deal with the low uptake of flood insurance. Neufeld said rating issues are handled at the federal level. At the provincial level, they are looking at changes to policies that are limiting the amount of coverage available. He said they are looking at things like high deductible limits or specific exclusions for certain types of floods. He said at the federal level, they are looking at a transitional model that starts with product affordability and subsidization and moves to a model with a more risk-based rating. He said they are also considering whether making a flood insurance product mandatory would be a factor in keeping coverage adequate but affordable.

Peterson asked if CCIR is looking at different approaches for residential and commercial risks. Neufeld said they are currently only focused on residential coverage. Peterson asked if there is consideration for tailoring a flood insurance product for the type of flood risk. Neufeld said their position paper emphasizes the need to clearly communicate to the consumer what the flood insurance product actually covers, including if certain types of flooding are excluded from coverage. He said one consideration of a federal program would be that it would provide blanket coverage for any type of flood.

3. Received a Presentation on NAIC Private Flood Data

Aaron Brandenburg (NAIC) said private flood data was first collected through the NAIC Financial Annual Statement for data year 2016 on the Exhibit of Premiums and Losses (State Page). He said data collection on the state page combined residential and commercial coverage. He said that in 2020, state insurance regulators began collecting data through a data call that gathered more granular information and split out residential and commercial coverage. He said the template of that data call was then adopted as a supplement to the annual statement.

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Brandenburg said for combined residential and commercial policies in 2022, there were over 641,000 policies in force, with about $1.3 billion in direct written premiums. He said residential policies comprise about 419,000 of the total policies, and the written premium for residential policies has doubled in the last two years. He said the data is also collected on a standalone versus endorsement basis. He said standalone policies now make up the majority of those policies, and the number of standalone policies has nearly doubled in the last two years. He said the data is collected on a first-dollar versus excess basis, and there is a large majority of first-dollar policies when comparing the two types.

Brandenburg said the top 15 writers of residential private flood insurance wrote over $348 million in premium in 2022, making up about 79% of the private flood insurance market.

Brandenburg said the states with the highest loss ratios in 2022 were Florida, Kentucky, Missouri, Nevada, and Tennessee.

Brandenburg said surplus lines carriers wrote the majority of policies.

Brandenburg said when looking at policies from the National Flood Insurance Program (NFIP), the top 10 states with the most NFIP policies account for 82% of total policies written. He said the number of policies written by the NFIP has decreased by about 400,000 over the last five years. He said while private flood insurance policies have increased over the last five years, it has not been at the same rate; therefore, we are seeing less total coverage for flood risks.

Van Slyke asked if, due to rising home values, people are turning to private flood insurance to get coverage equal to the available limit of NFIP policies. Brandenburg said the NAIC does not collect data on policy limits, but higher limits are a benefit of the private market.

Having no further business, the Climate and Resiliency (EX) Task Force adjourned.

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NAIC NATIONAL ASSOCIATION OF INSURANCE COMMISSIONERS

NATIONAL CLIMATE RESILIENCE STRATEGY FOR INSURANCE

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For years, U.S. Insurance Regulators from the Great Lakes to the Gulf of Mexico have worked together to strengthen insurance markets for the future. Today we are seeing the consequences from wildfires, floods, and storms, among other perils, that are threatening communities and their economies. As the insurance regulators in Alaska and California, we are honored to serve as Co-Chairs of the NAIC Climate and Resiliency Task Force, which include over 40 of our insurance regulator colleagues from diverse jurisdictions: large and small populations, coastal and inland, urban and rural, and the island jurisdictions that face urgent and unique challenges. The following NAIC National Climate Resilience Strategy represents our most recent collective action.

Improving climate resilience requires blending regional perspectives and coordinating actions across federal, state, and local governments. We worked with our peers across the nation to create this first-ever national climate resilience strategy for insurance. While state regulators have supervised insurance markets for over 150 years, the challenges we face today are national in scope and require a unified approach. That is why we have come together at this moment to formalize the actions we will take as insurance regulators to strengthen climate resilience.

We are at a watershed moment on climate and resiliency. Insurance continues to be a crucial backbone to communities throughout the US. In the aftermath of recent wildfires, windstorms, and atmospheric rivers, insurance has helped improve lives by aiding recovery. But that can only occur if insurance is available and reliable. The number and scope of severe disasters that our jurisdictions have faced in recent years has raised questions about the sustainability of insurance availability and the challenges for consumers seeking insurance to be able to find and maintain it.

Our NAIC National Climate Resilience Strategy prioritizes pre-disaster mitigation because protecting insurance consumers begins long before a wildfire starts or a hurricane makes landfall. We are not starting from scratch. Several strong examples exist among our member jurisdictions. The California Safer From Wildfires program, for example, provides premium incentives for reducing wildfire risk through home hardening, while the Strengthen Alabama Homes Program provides grants to homeowners to retrofit properties based on the Insurance Institute for Business and Home Safety (IBHS) Fortified standard. Earlier this year, the state of Minnesota passed a similar law requiring incentives for homes that meet the Fortified standard, demonstrating the regional diversity of such approaches.

Our actions also include taking new steps on data collection and solvency tools. For the first time, the NAIC will conduct a national data collection on the availability and affordability of insurance in our jurisdictions, empowering our members to better understand each jurisdiction and regional trends. Our members will also be implementing cutting edge solvency tools that analyze future scenarios to understand solvency issues for the insurance sector. These actions address the challenges we face in a forward looking and comprehensive way.

This strategy is the first for the NAIC and its members. Insurance markets are an indicator of underlying risks and critical to recovery. The new actions pursued by the NAIC in our National Climate Resilience Strategy will strengthen resilience by helping federal, state, and local governments get more organized and effective when implementing risk mitigation funding.

Sincerely,

Ricardo Lara
Commissioner, California

Lori Wing-Heier
Director, Alaska

Co-Chairs, Climate and Resiliency Task Force of the Executive Committee
National Association of Insurance Commissioners (NAIC)

“Mitigating the risk of severe weather and wildfire is essential for the safety of families and communities. Research shows Americans are not powerless – there are known, effective actions that home and business owners can take now to reduce their risk and help break the cycle of damage, disruption, and dislocation all too often associated with these natural perils. In parallel, IBHS will continue to work with the NAIC to inform and educate regulators and policymakers as they also work to bend down the risk curve and foster healthy insurance markets.”

Roy Wright, President and Chief Executive Officer, Insurance Institute for Business and Home Safety

Leadership on Climate Resilience in the Insurance Sector

A National Climate Resilience Strategy for Insurance will bring together and formalize resilience actions that can be coordinated by the National Association of Insurance Commissioners (NAIC), both pre- and post-disaster. A cornerstone of this multi-year strategy is more comprehensive data collection by the NAIC, ultimately producing better risk mitigation decisions in state jurisdictions and a greater ability to identify diverse funding strategies for risk mitigation. Insurance is critical to climate resilience and US state regulators are experts in risk assessment, insurer solvency, and disaster recovery. The NAIC and insurance regulators have been working on the issue of climate risk and resiliency for more than a decade.

The foundational deliverables created in the past few years will drive this forward looking strategy and meet the current watershed moment for insurance availability. It is part of our overarching mission to manage risks, ensure the availability and reliability of insurance products, promote insurer solvency, and close protection gaps. Our work to identify, assess, and communicate risk and risk reduction solutions, as well as to improve oversight of the insurance sector, has positioned state insurance regulators to implement a climate resilience strategy.

The Climate and Resiliency Task Force of the Executive Committee is launching this strategy to bring together the products of existing workstreams into an enduring strategy that promotes resilient insurance markets in all US jurisdictions. The actions in this document will address the local risks, including flooding, extreme heat and cold, wildfires, hail, convective storms, atmospheric rivers, drastic snowfall, and hurricanes. Insurance regulators have the role and responsibility for ensuring stable, competitive marketplaces and financially solvent carriers. Two crucial parts of this role are to make sure that insurance companies have the financial resources to make good on their promises to pay claims and to take steps to close insurance protection gaps.

> By helping establish insurance incentives and rewards for risk reduction and conducting coordinated, ongoing monitoring of new policy limits, deductibles, and reduced underwriting in markets across the country, state insurance regulators can stay at the forefront of advancing solutions to emerging protection gaps associated with insurers' reactions to climate change.
> ***Amy Bach, Executive Director, United Policyholders***

Strategy Overview

The National Resilience Strategy for Insurance will set clear goals and direction, creating stronger cohesion among the four task force workstreams: Solvency, Technology and Innovation, Climate Risk Disclosure, and Pre-Disaster Mitigation. By using new state regulator tools, such as the Catastrophe Modeling Center of Excellence and the Protection Gap Dashboard, in a coordinated way to increase regulator understanding of climate risks and risk mitigation in insurance markets, this strategy will support NAIC members now and in the future, which will build resilience to the climate vulnerabilities we see in every jurisdiction.

This strategy will incorporate data from existing NAIC efforts. For example, the NAIC Property and Casualty Committee is creating a long-term framework for collecting more granular data from insurance companies related to climate-intensified wildfires, floods, hailstorms, convective storms, earthquakes, atmospheric rivers, and other events to better understand property markets. The new data will inform the implementation of the National Climate Resilience Strategy. Additionally, the NAIC Center for Insurance Policy Research (CIPR) will be a key partner to implementation of this strategy.

Resiliency Actions:

Action 1: Close Gaps

The NAIC members will identify and coordinate the measurement of protection gaps, maintain a dashboard to understand where protection gaps are widening, evaluate policy options that have been attempted or considered, and measure progress in losing those protection gaps.

Deliverables:

1A. Launch an NAIC Protection Gap Dashboard, developed by NAIC staff, to understand current protection gaps and to inform state and jurisdiction specific priorities for insurance availability.

1B. Convene State Regulator staff and researchers to better understand the role of insurance policy innovation in closing protection gaps and the specific characteristics of innovative policies that may be relevant to insurance regulation

1C. Encourage local governments to include insurance access as a priority to local mitigation projects.

1D. Create training tools for State Regulator staff and tools for communicating with policyholders, state agencies, and the public.

1E. Use the NAIC Protection Gap Dashboard to establish goals and measure progress for expanding insurance options and closing protection gaps.

1F. Use the Protection Gap Dashboard to design new risk and resilience communications to the public and local governments.

1G. Assess how the compounding consequences from multiple perils, such as extreme heat and wildfire, create specific challenges for specific jurisdictions.

“Cooperation is the bedrock upon which we can construct climate resilience and bridge the protection gap. It hinges on collaboration among diverse stakeholders, including households, insurance regulators, policy-makers, insurance, and other industries, as well as fostering unity among nations and states. The NAIC National Climate Resilience Strategy for Insurance, along with its comprehensive database, offers the solid groundwork needed to turn this vision of cooperation into a reality.”
Yoshihiro Kawai, Chair, OECD Insurance and Private Pensions Committee

Action 2: Flood Insurance Blueprint

Create a blueprint for the future of flood insurance. We cannot only rely on the NFIP to close protection gaps to flood. We can coordinate on insurance regulator approaches to new strategies on innovative products, risk assessment tools, risk communication, and risk mitigation programs that can help close protection gaps for flooding.

Deliverables:

2A. Launch a national initiative to increase awareness of risk mitigation recommendations, including IBHS science, and flood insurance options.

2B. Flooding is the consequence of many scenarios, including storm surge along coastlines, snowmelt, and high rainfall events.

2C. Create new partnerships with universities in state jurisdictions to conduct localized risk assessments and risk mitigation strategies.

a. Establish four university hubs, one for each zone, to focus insurance regulator engagement on flood risk mitigation and expanding insurance access based on the most common sources of flood risks in the zone.
b. Provide data to local governments on the number of private flood insurance policies in their region to identify opportunities for local governments, special districts, and townships to understand their collective risks and opportunities.

2D. Build stronger communication with local governments to support more effective risk understanding and awareness, as well as to share best practices for flood risk communication and risk mitigation, including information on the existing options for their constituents.

3E. Incorporate state-level insurance information into advocacy for state and federal funding to reduce flood risks.

> The NAIC National Climate Resilience Strategy for Insurance demonstrates the united front needed to confront climate risk. With this landmark nationwide strategy, US insurance regulators are leading by example on how to make risk-informed decisions that build climate-resilient communities and economies. Insurability goes hand-in-hand with resiliency."
> ***Butch Bacani, Programme Leader, UN Environment Programme's Principles for Sustainable Insurance Initiative***

Action 3: Comprehensive Data

Fill long-term insurance data gaps and utilize the Catastrophe Modeling Center of Excellence to improve understanding of how coverages are changing within and among jurisdictions. Continue to make the Catastrophe Modeling Center of Excellence a resource for all members to understand mitigation priorities.

Deliverables:

3A. Use the data collected by the upcoming NAIC Climate Property and Casualty Data Call to reinforce the connection between risk reduction and insurance availability to understand trends in the recent actions of insurance companies by geography, impacts to consumers, and to develop risk mitigation and risk communication priorities.

3B. Prioritize the development of trainings and deliverables from the Catastrophe Modeling Center of Excellence for each Zone, and for island jurisdictions.

3C. Understand how models are assessing risks and apply this understanding to determine priority areas for community risk mitigation and advocating for additional funding.

3D. Use information from upcoming Property and Casualty Insurance Availability Data Call to aggregate state level data on insurance availability and affordability, especially among regional groups of jurisdictions facing similar risks.

3E. Commit to a multi-year data collection to continue to keep insurance regulators informed on the trends in the markets they oversee for availability and affordability of insurance, including whether coverages are becoming more limited through changes to deductibles or coverage limits.

3F. Pair insurance market data with storm, wind, wildfire, flooding, and extreme heat risk information and other economic and mitigation factors to better understand the changes in pricing and availability of insurance.

3G. Advocate for federal funding for pre-disaster mitigation to address priority areas for reducing future losses and increasing insurance availability and affordability.

3H. Continue to expand NAIC advocacy for both increased federal investment in existing risk mitigation programs and tax parity amount federal and state risk mitigation programs to achieve more successful risk mitigation. The NAIC will continue to bring together examples of successful state-level mitigation programs as models for other jurisdictions.

3I. Use IBHS science and resources to consistently inform state regulators about ongoing advancements in climate risk and resilience.

Congress has excluded grants provided through the Federal Emergency Management Agency (FEMA) 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. As US jurisdictions continue to experience the devastating effects of climate-related disasters, it is more important than ever to encourage residents and homeowners to utilize pre-disaster mitigation programs, and for the funding in those programs to help as many people as possible reduce their risk of a loss, whether insured or uninsured.

Action 4: Risk Mitigation

Create and coordinate new resilience tools to assist all state regulators in developing state level mitigation grant programs and expanding incentives for pre-disaster mitigation. A growing number of states are implementing or proposing mitigation grant programs, either linked to FEMA funds or state level funds. The creation of a common resource, or roadmap, for state insurance commissioners to contribute to risk mitigation programs would reduce future losses and promote insurance availability in member jurisdictions.

Deliverables:

4A. Create specific opportunities for state level insurance regulators to advocate on where federal and state mitigation dollars, such as the FEMA BRIC program, will generate the most benefits to insurance access. Strengthen pre-disaster mitigation by identifying how federal and state funds could have the most benefits for insurance access in communities.

4B. Better prepare policyholders and those seeking insurance for the risks they face. Improve coordination on communication of risk reduction information. The NAIC can be a communicator of IBHS risk reduction science to the public and the communicator of risk reduction information on rapid-onset impacts like high rainfall, slow-onset impacts like spring snowmelt, and compounding impacts like increased flood risks after severe wildfire seasons. These are types of flooding that are too often overlooked and are significantly impacting certain states and jurisdictions.

4C. Engage with FEMA to better align FEMA pre-disaster funding to reduce risk for insurance markets.

4D. Create an updated and more robust Disaster Preparedness Guide for State Insurance Regulators.

4E. Synthesize the experience of insurance commissioners on specific perils to transfer knowledge to fellow state regulators and future commissioners.

4F. Create an updated "living" Disaster Preparedness guide that includes the experience of regulators facing recent disasters, including the market and solvency questions that regulators have considered and addressed, for internal use in the immediate aftermath of disasters.

4G. Build partnerships with stakeholders that support risk mitigation actions. For example, work with groups like Ducks Unlimited on applying for federal funding that reduces the community flood risk through land management. For example, in Canada, collaboration between Ducks Unlimited and insurance companies has linked funding with flood risk reduction that improves insurability in nearby communities.

4H. Use data collected by insurance regulators to support advocacy for federal risk mitigation grant funding.

"As climate change stresses property insurance markets, reducing the risks households and communities face from escalating weather extremes will be paramount. NAIC leadership to monitor trends, support risk reduction, and develop innovative approaches will not only help stabilize insurance markets but increase our overall resilience."
Carolyn Kousky, Associate Vice President for Economics and Policy at Environmental Defense Fund

Action 5: Test Scenarios

Expand insurance regulators' leadership on new solvency tools. Solvency oversight is a critical part of insurance regulation. Preparing insurance regulators to better adapt to climate change requires new scenario analysis tools. Testing catastrophe models, scenario analyses, and risk mitigation factors will all contribute to more resilient communities. Simultaneously, it will require our Departments of Insurance to build knowledge.

Deliverables:
5A. Create scenario analysis resources for state regulators to use to understand solvency risks to insurance companies.

5B. Build stronger partnerships between insurance regulators and regional universities or research centers. Insurance regulators would benefit from working with universities and colleges to access and develop data sources, improve risk communication, keep pace with state-of-the-art science and technology, and fortify the pipeline of new talent to insurance careers.

5C. Create resources and opportunities for multi-state partnerships to use multiple scenario analyses to better understand potential solvency considerations for the insurance sector.

5D. To better assess solvency impacts, embed climate stress testing and climate scenario analysis into routine financial analysis, data collection, and financial surveillance.

"State insurance regulators are focusing on the growing challenges of more intense wildfires and floods and will play a critical role in promoting better decisions on where and how we build, and encouraging the investments in natural infrastructure and safety that are essential to improving insurability of communities. A coordinated, multi-year climate resilience strategy for insurance can accelerate pre-disaster mitigation investments and preserve insurance options that are essential to community recovery."
Alice Hill, David M. Rubenstein senior fellow for energy and the environment at the Council on Foreign Relations

Acknowledgments

NAIC Executive Committee Climate and Resiliency Task Force Co-Chairs

Ricardo Lara, Co-Chair, California

Lori K. Wing-Heier, Co-Chair, Alaska

James J. Donelon, Co-Vice Chair Louisiana

Mike Kreidler, Co-Vice Chair, Washington

NAIC Executive Committee Climate and Resiliency Task Force Members

Mark Fowler, Alabama
Peni Itula Sapini Teo, American Samoa
Barbara D. Richardson, Arizona
Alan McClain, Arkansas
Michael Conway, Colorado
Andrew N. Mais, Connecticut
Mike Causey, North Carolina
Trinidad Navarro, Delaware
Karima M. Woods, District of Columbia
Judith L. French, Ohio
Michael Yaworsky, Florida
Gordon I. Ito, Hawaii
Dana Popish Severinghaus, Illinois
Amy L. Beard, Indiana
Doug Ommen, Iowa
Troy Downing, Montana
Timothy N. Schott, Maine
Kathleen A. Birrane, Maryland
Gary D. Anderson, Massachusetts
Anita G. Fox, Michigan
Grace Arnold, Minnesota
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Eric Dunning, Nebraska
Justin Zimmerman, New Jersey
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Scott Kipper, Nevada
Alice Kane, New Mexico
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Jon Godfread, North Dakota
Glen Mulready, Oklahoma
Andrew R. Stolfi, Oregon
Alexander S. Adams Vega, Puerto Rico
Michael Humphreys, Pennsylvania
Elizabeth Kelleher Dwyer, Rhode Island
Sharon P. Clark, Kentucky
Michael Wise, South Carolina
Tregenza A. Roach, U.S. Virgin Islands
Kevin Gaffney, Vermont
Scott A. White, Virginia
Nathan Houdek, Wisconsin
Jeff Rude, Wyoming

NAIC Support Staff: Aaron Brandenburg and Libby Crews
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